

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK PROJECT

EQUITY RESEARCH:
NH HOTEL GROUP S.A.

RHODA TICHATSCHEK

FEBRUARY 2018



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

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**SUPERVISOR:
VICTOR MAURÍLIO SILVA BARROS**

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Abstract

The following report was written in accordance with the recommendations of the CFA Institute. In this project, a detailed evaluation of NH Hotel Group S.A. was performed. Materials on this report only the public information about the company issued until the 30th of September of 2017.

NH Hotel Group is an international hotel operator and one of the leading urban hotel companies worldwide in terms of number of rooms.

The careful analysis of the company's management, financials, risks and competitors together with the forecast analysis based on reasonable assumptions, facilitated a suitable valuation on the company's target price.

The target price was obtained using two different methods, an absolute valuation method, where the Discounted Cash Flow (DCF) was used and a relative valuation method, where the method of Comparable Multiples was used.

Having reached a price target of € 5.69/sh at 2017YE, with an upside potential of 0,35% from the current stock price of € 5.67/sh on the 29th September 2017 our recommendation for NH Hotel S.A. is to hold. The hold recommendation is supported by complementary valuation methods and stress test.

JEL classification: G10; G32; G34.

Keywords: Equity Research; Valuation; Mergers & Acquisitions; NH Hotel Group S.A., Hotel Industry.

Resumo

O seguinte relatório foi redigido de acordo com as recomendações do Instituto CFA. Neste projeto, foi realizada uma avaliação detalhada do NH Hotel Group S.A. Os materiais neste relatório apenas refletem a informação pública sobre a empresa emitida até 30 de setembro de 2017.

NH Hotel Group é um operador hoteleiro internacional e uma das principais empresas hoteleiras urbanas em todo o mundo em termos de número de quartos.

A análise cuidadosa da gestão, financeira, riscos e concorrentes da empresa, juntamente com a análise de previsão baseada em premissas razoáveis, facilitou uma avaliação adequada do preço-alvo da empresa.

Tendo atingido um preço-alvo de € 5.69/sh no final de 2017, com uma vantagem potencial de 0,35% do atual preço das ações de € 5.67/sh em 29 de Setembro de 2017, nossa recomendação para NH Hotel S.A. é segurar. Nossa recomendação de segurar é suportada pelos métodos de avaliação complementares e teste de estresse.

Classificação JEL: G10; G32; G34.

Palavras-Chave: Equity Research; Avaliação de Empresas; Fusões e Aquisições; NH Hotel Group S.A., Indústria hoteleira.

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I want to dedicate this project to my father, mother, sister, brother, husband and son.
A special thanks to my supervisor Victor for all the guidance and support.

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NH: Building up the Future

(YE2017 Price Target of € 5.69 (+0,3%); recommendation is to Hold)

1. Research Snapshot

Hold is our recommendation for NH Hotel S.A. with a price target of € 5.69/sh at the end of 2017, using the discounted cash flow method which compares with the current € 5.67/sh on the 29th September 2017. Relative valuation through multiples supports our view that NH is currently slightly undervalued, but this approach is only considered as complementary although with medium risk.

Figure 1: Historical Share Price Source: Reuters

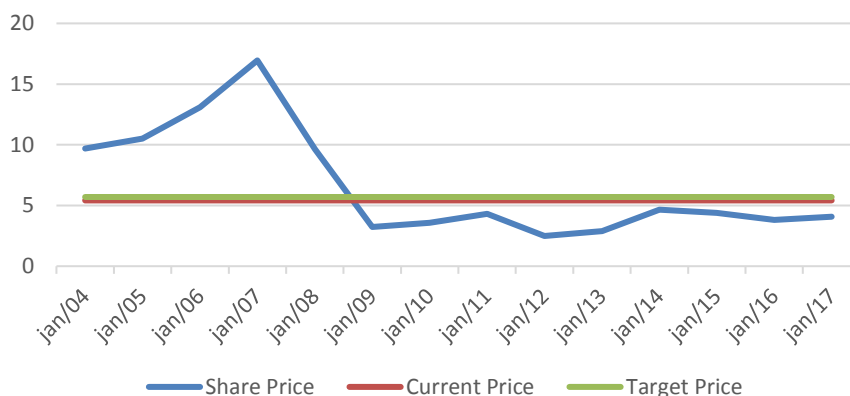


Table 1: Analyst's Risk Assessment

Low	Medium	High
Our risk assessment reflects medium competition in company's domestic and international markets. However, the sector has a high dependence of international growth and general economic conditions.		

The leading driver of the group's performance are the room revenues. Room revenues are primarily influenced by the occupancy rate and ADR (Average daily rate). Both are strongly correlated to general economic conditions, the strength of the travel industry and the supply and demand of hotel accommodation in a specific market. We predict an increase in the occupancy rate due to a global GDP growth projection of 3.40% and a GDP growth in the Eurozone of 1.50% in 2017¹. Europe's international tourism arrivals will increase between 2% and 3% in 2017 and the new hotel supply growth is expected to be very low.²

In recent years, the hotel industry has been facing the threat of non-traditional accommodation providers. In this context, NH has gone through a transformation to differentiate itself fully from this segment by improving both the service and the product, betting on the quality versus quantity. Assets that were not adapted to the new requirements came out of the portfolio and most of the hotels are being fully or partially reformed. With the implementation of this repositioning plan, we believe that NH will surpass the industry results in the next years.

Table 2: NH sensitivity analysis Source: Author

	Change in Occupancy					
	5,69	56,24%	62,48%	69,43%	76,37%	84,01%
Change in ADR	75,00	0,02	1,21	2,59	4,01	5,63
	83,30	1,21	2,58	4,16	5,80	7,68
	92,60	2,59	4,17	5,69	7,91	10,11
	101,90	4,02	5,82	7,91	10,12	12,67
	112,00	5,62	7,68	10,10	12,65	15,63

1 Global Economy Watch- Projections, PWC in <https://www.pwc.com/gx/en/issues/economy/global-economy-watch/projections.html>

2 UNWTO Tourism highlights, 2017 Edition in <https://www.e-unwto.org/doi/pdf/10.18111/9789284419029>

2. Business Description

NH Hotel group (officially NH Hotel Group S.A.) is a Spanish based hotel chain founded in 1978 in Navarra, Spain, by Antonio Catalan Diaz, and is headquartered in Madrid. NH stands for Navarra Hotels, and its first establishment was in Ciudad de Pamplona. Only four years later, it started its national expansion by opening “NH Calderon de Barcelona”. This was followed by many other hotel openings in the decade of the 80’s, leading the company to establish itself as one of Spain’s leading chains, running hotels in Madrid, Barcelona and Zaragoza. By the end of 1995 NH counted with 54 establishments nationwide.

GEOGRAPHIC EXPANSION AND GROWTH

The end of the 90’s decade marked the beginning of the Company’s international expansion, starting by the acquisition of a stake in Jolly Hotels in Germany (19.1%) and followed by the total acquisition of the Dutch hotel chain, Krasnapolsky, a transaction which doubled its size. After this deal NH had 168 hotels, 7.300 employees and a presence in 15 Countries and the company was positioned as the third largest hotel chain in Europe.

In the 2000 decade the group continued to expand not only through its acquisitions like the Mexican hotel chain Chartwell in 2001 and the German chain Astron Hotels in 2002 but also through the entering in additional new markets. By the end of 2007 the group had 341 hotels and 35.000 rooms in 21 countries in Europe, Latin America and Africa. Another important year for NH was 2009, when it merged the hotel management business with the other Spanish hotel chain Hesperia. Thanks to this transaction, NH took over the management of the 51 hotels owned and operated at the time by Hesperia.

In 2015 the group completed the acquisition of the Latin American chain Hoteles Royal, which allowed NH Hotel group to launch its brands in Colombia, Chile and Ecuador. NH is a benchmark operator of city hotels operating by December 2016 close to 378 hotels in 30 markets mainly in Europe. Its biggest presence is in Spain followed by Italy and Benelux. By 2016 NH had 58.085 rooms available, employed 13.850 people and generated a total revenue of € 1,447 million.

SEGMENTS

In 2014, NH Hotel Group carried out a clear segmentation of its hotels with the design of a new brand architecture and an improved value proposition for its customers, based on the needs of consumers and the experience offered by the company. The goal is to have more and more hotels operating in the upper upscale, and upscale categories and less in the midscale category. The new brand structure defines the NH Hotel Group portfolio as follows:

Upper Upscale:

- **NH Collection:** This is the upper-upscale brand of NH Hotel Group. It has hotels located in the main cities of Europe and Latin America.
- **nhow:** The hotel brand for travellers with their own style. nhow is NH’s most surprising and exclusive brand. Each hotel is a unique creation. New forms of contemporary architecture, design, technology and smart luxury by prestigious architects and interior designers.

Upscale:

- **NH Hotels:** NH Hotels, four and three-star urban hotels for those travellers who for business or leisure purposes are looking for an excellent location with the best value for money. Comfortable and functional rooms, with services and amenities adjusted to their needs.

Midscale:

- **Hesperia Resorts:** This is the vacational brand. Hesperia Resorts, holiday resorts with a renewed concept of modern accommodation and customized

Figure 2: Operating breakdown by
Source: Company Data

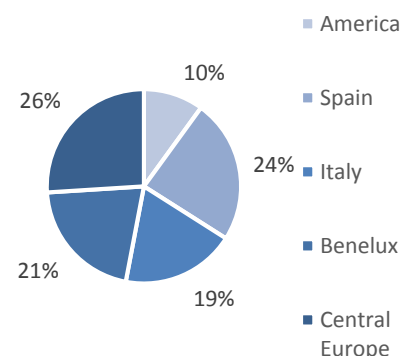


Figure 3: Number of Hotels by main markets

Source: Company Data

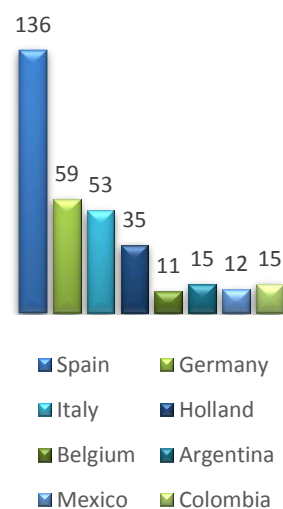
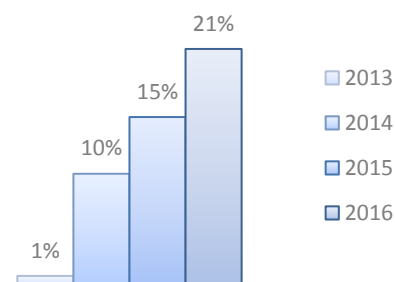


Figure 4: Percentage of rooms in the Upper Upscale

Source: Company Data



service that is surprising at every level. Situated in stunning locations, they are the perfect choice for couples and families who need the ideal combination of rest and enjoyment.

By the end of 2016 NH Hotel group had 21% of rooms in the Upper Upscale. The rest of the 79% is divided between the Upscale, Midscale and Hesperia Resorts, but the exact division percentages are not disclosed.

Nh Meetings: NH Hotel Group creates memorable and inspiring events that help its customers achieve remarkable success. Creative and versatile spaces with state-of-the-art technologies to create high impact events and high-performance meetings.

KEY DRIVERS OF PROFITABILITY

The key drivers of Revenues for NH Hotels are: "Hotel Occupancy", "Catering", "Meeting rooms and others", "Rentals and other services". Approximately 70% of the revenues come from the Hotel Occupancy which grew from € 1,376.634 in 2015 to € 1,447.903 in 2016. The RevPAR ratio is also very important and grew from 53.3 in 2014 to 58.3 in 2015 and finally to 62.0 in 2016. Hotel Occupancy and RevPAR can be affected by many different factors but mainly by GDP per capita or rising of the purchasing power. Stronger growth and employment within the different economies will fuel demand for holidays. Stronger economic performance will also provide a likely boost to international business visits, which is again great news for the industry due to the greater spend per night of business-related stays.

Another essential part and important key driver of profitability are the expenses. The expenses are divided by NH as follows: "Personnel Expenses", "Lease rentals", "External services" and "Others". The costs for a hotel are generally very steady from year to year. In NH's case in 2016, the groups higher level of activity in the hotel business led to an increase in some operational expenses. Also, the increase recorded in the RevPar explains the increase associated to agency commission expenses. The Personnel expenses grew from € 398,148 in 2015 to € 415,889 in 2016 (Figure 5) and the "Other Operating Expenses" grew from € 787,089 in 2015 to € 795,174 in 2016.

COMPANY STRATEGIES

NH Hotel Group's five-year strategic plan (2014-2018) is based on the fundamental pillars of the new NH's value proposition. It is structured in four major levers of value creation and 24 initiatives, each of which has its objectives, action plans, calendar, budget and implementation managers.

2016 was the third year of the execution of the Strategic Plan, an exercise in which the company has undergone a profound transformation thanks to the good evolution of the initiatives of the plan and its positive results.

These initiatives have focused on improving revenues, as well as increasing margins, further expansion and the implementation of what were defined as facilitators of NH hotel group transformation: a new human resources strategy. Sustainability and information systems. The four major levers of the strategic plan are the following:

1. **Increase in income (Revenues):** The increase in income is to be achieved by two main strategies.
 - Value proposition: Meeting the expectations and needs of its customers is a priority for NH Hotel Group. For this reason, the company bases its work on the operational and service promise defined for each of its brands, focusing on maintaining the highest quality and innovation standards, while always remaining transparent in its actions. The company is committed to guaranteeing excellence in its services, with a view to always exceeding customer expectations.
- In 2015, NH Hotel Group also increased the investment in targeted marketing in order to build up brand value and gain recognition from consumers in all countries where the company operates, by designing campaigns that convey the quality, locations, services and experiences offered by its hotels.

Figure 5: Staff cost evolution

Source: Company Data, Author

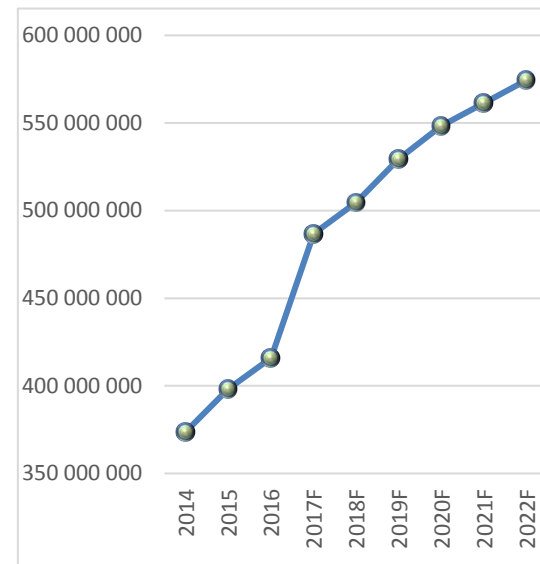
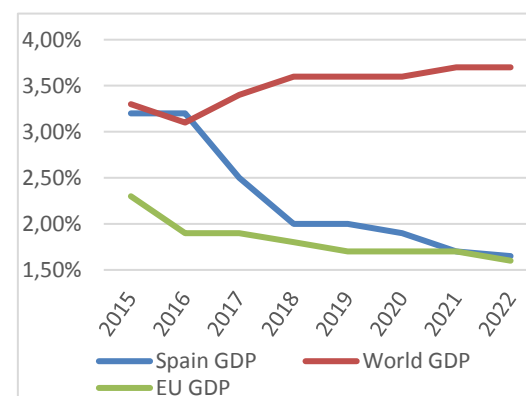


Figure 6: GDP Evolution

Source: PwC



- **Portfolio optimization:** During 2015, NH Hotel Group continued to apply a pricing strategy that makes it possible to improve financial performance by increasing average daily rates per occupied room (ADR), one of the 24 initiatives in the Strategic Plan. On this year, NH Hotel Group began using new and sophisticated tools that make it possible to establish dynamic pricing strategies based on hotel capacity. With these tools, the company is able to forecast the demand of available rooms in real time, making the most of Big Data for an intelligent pricing system.

There has also been in place a repositioning plan that has been successful in its first three years, with the goal of investing € 200M in key hotels to enable portfolio segmentation. By the end of 2015, hotels representing 64% of the EBITDA of the company are already in “perfect shape” (Figure 7). Once the repositioning will be completed, 81% will be in “perfect shape”. This will lead to an optimized portfolio with less brand damaging and unprofitable hotels.

2. **Increase in margins:** The increase in margins is also divided in two subcategories.

- **Cost efficiency:** The plan is to reduce the intermediation costs by increasing direct sales online (website and mobile applications). This is to be achieved by reviewing the sales and pricing strategies.
- **Debt refinancing:** The goal is to improve capital structure and reduce financing costs.

3. **Expansion plan:** NH aims to strengthen the presence in Europe (France, UK, Germany and Italy) and Latin America (Mexico, Colombia, Chile, Peru) providing top-line growth and compensate non-core disposals.

At the end of February 2015 NH Hotel Group and HNA created “Beijing NH Grand China Hotel Management Co. Ltd”. The Beijing-based joint venture’s corporate purpose is to build a portfolio of NH Hotels and NH Collection brand hotels in the midscale and upscale segments in China owned by HNA or by third parties, in the Chinese territories, Hong Kong, Taiwan and Macao. The target is to develop 120 to 150 hotels by the year 2020 in this market. This business approach fits with NH Hotel Group’s strategy of pursuing growth using capital-light formulas.

4. **Facilitators:** IT transformation plan: The integration to the SAP system will allow NH to have the front, back and CSR systems integrated, to outsource the administration to a shared services center with concrete savings, and to having unique data with quick access to it.

Generally, NH’s main strategy and focus is in the goal to having more hotels in operation in the upscale category. (Growing from 66 hotels and 10.332 rooms in September 2016 to 71 hotels and 11.150 rooms by 2017). So more and more the group has been investing in reforming totally or partially the hotels, contributing to a rise in the quality and prices of the rooms. These initiatives have allowed NH to differentiate themselves from the rest by its commitment to quality.

Figure 7: Repositioning Plan Status Sept. 2016 (number of hotels)

Source: Company Data

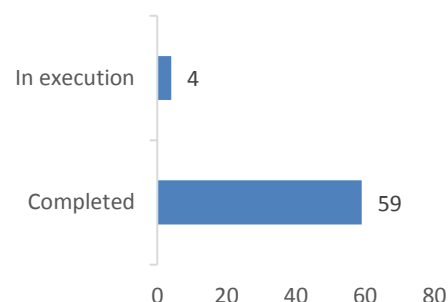
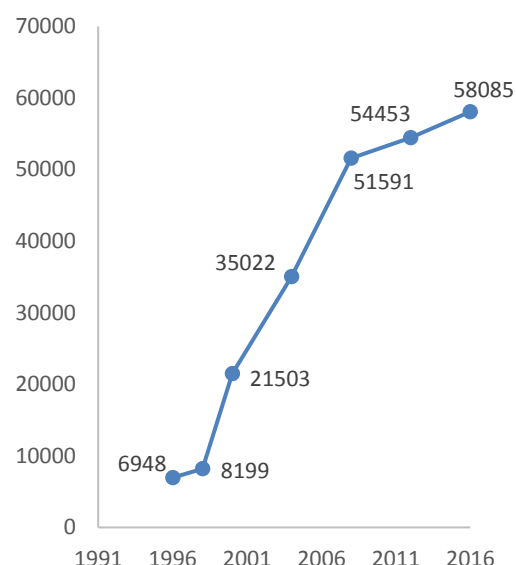


Figure 8: Number of rooms evolution

Source: Company Data



SHAREHOLDER STRUCTURE

In 2016, the share capital of NH Hotel Group S.A. was represented by 350,271,788 bearer shares with a par value of 2 € each, fully subscribed and paid. Following the latest notifications received by the Company and the communications sent to the National Stock and Securities Commission by the closing of every financial year, the most significant holdings as at 28 April 2016 were as shown in the Graph. (Figure 9)

- HNA

HNA is the biggest shareholder of NH holding 29.50% of the shares. HNA is a Chinese conglomerate headquartered in Haikou, Hainan, China, a group involved in industries such as aviation, real estate, financial services, tourism and logistics.

- Oceanwood

Oceanwood Capital Management LLC holds 12.00% of NH's shares. It is a venture capital company founded in 2006 with headquarters in London and Malta. It manages interests of a diverse group of investors, including major private and public funds for pensions, foundations, financial institutions and insurers around the world.

- Grupo Hesperia

The third biggest shareholder is Grupo Hesperia with 9.30% of the shares. This company is based near Barcelona and it owns and operates hotels through its subsidiaries.

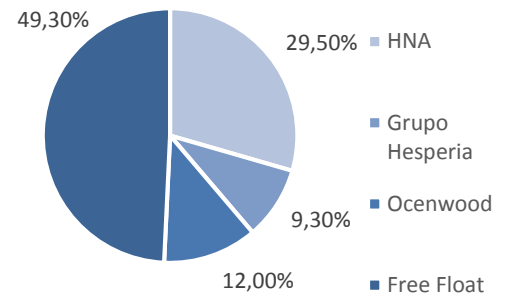
- Free Float

49.30 % of the Hotels shareholder structure is represented by the Free Float.

The Shareholder structure is suitable for the company. All shares have the same voting and financial rights and are listed on the Continuous Stock Market.

Figure 9: Shareholder structure

Source: Company Data



3. Management and Corporate Governance

NH Hotel Group is constantly updating its Corporate Governance system, which encompasses its Articles of Association, corporate policies, internal rules and regulations, and various internal codes and procedures approved by the competent corporate bodies.

BOARD OF DIRECTORS

The Board of Directors is the Company's oversight and control body. It is charged with defining the Company's management strategies and guidelines, as well as its corporate organization framework in order to achieve greater efficiency, by ensuring that the Company follows appropriate shareholder and market reporting procedures. As part of its oversight and control role, the Board of Directors takes decisions on major business and financial operations and approves the basis for its own organization and operation in order to ensure that it fulfils its role in the best possible manner. The Board of Directors has 11 members by the end of 2016, of which 2 are women and 9 are men.

As at 31 December 2016, the structure of the Board of Directors was the following:

Chairman of the Board: Mr. Alfredo Fernandez Agras (Proprietary, representing Ocenwood)

Vice-Chairman of the Board: Mr. José Antonio Castro (Proprietary, representing Hesperia)

CEO: Ramón Aragonés Marín (Independent).

Ramon Aragonés Marín (Madrid 1954) studied hotel management and tourism in Palma de Mallorca and Louvain universities, and in the Centro Superior de Hostelería in Palma de Mallorca. He joined Hoteles Hesperia in 2000 as Operations Manager, was appointed Director of operations (2000-2009) and belonging at the same time to the Board of Directors of Hoteles Hesperia. He was subsequently appointed General Director of operations of NH Hotel Group and in 2011 he was appointed Chief Operating Officer. His extensive experience in the hospitality industry led to him being appointed CEO of the group in January 2017.

DELEGATED COMMISSION

The Delegated Commission is set up as a body with decisional capacity of general scope and with express delegation of all the authorities vested in the Board of Directors, except non-delegable powers either by Law or by Articles of Association. Specifically, the Board Regulation of NH Hotel Group, S.A. instructs the Delegated Commission the goal to give perspective and high-level view both to the Board and the executive team, in order to facilitate the Board of Directors in its decision-making process in matters of its competence.

As at 31 December 2016 the Chairman and Vice-Chairman of the Delegated Commission were Mr. José Antonio Castro (Hesperia) and Alfredo Fernandez Agras (Oceanwood) respectively.

AUDIT AND CONTROL COMMITTEE

The Audit and Control Committee is responsible for ensuring efficient internal controls, liaising with auditors, and supervising the preparation and reporting of financial information. It is also responsible for internal audits, risk management systems, and all other functions falling under its scope of competence under the legislation in force, the Articles of Association, and the Regulation of the Board.

As at 31 December 2016 the Chairman of the Audit and Control Committee was Mrs. Koro Usarraga Unsain.

APPOINTMENTS, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE

The Appointments, Remuneration and Corporate Governance Committee is responsible for functions related to proposed appointments and terminations of

Table 3: Board of Directors Remuneration

Source: Author

Board of Directors Remuneration	2015	2016
Fixed remuneration	600.000	451.000
Variable remuneration	332.000	332.000
Allowances	232.000	264.000
Others	4.000	10.000
Life insurance premiums	76.000	37.000

Table 4: Ownership structure

Source: Company Data

OWNERSHIP STRUCTURE	
Share Capital (€)	700 543 576
Number of Shares	350 271 788
Number of voting rights	350 271 788

Table 5: Company management structure

Source: Company Data

Board of directors	
Maximum number of Directors	20
Minimum number of Directors	5

directors and senior managers of the Company, as well as for approving compensation scales and senior management contracts. It also deals with matters concerning the remuneration of Board members, Corporate Social Responsibility and Corporate Governance.

As at 31 December 2016 the Chairman of the Appointments, Remunerations and Corporate Governance Committee was Mr. Jose Maria Sagardoy Llonis.

The governance structure is suitable for the company. The members of the board of directors can hardly act in their own interest, because a majority of the voting members is needed for taking the decisions. The Appointments, Remuneration and Corporate Governance committee and the Audit and Control committee also participate in monitoring and auditing the board to protect shareholders from decisions that could affect the company.

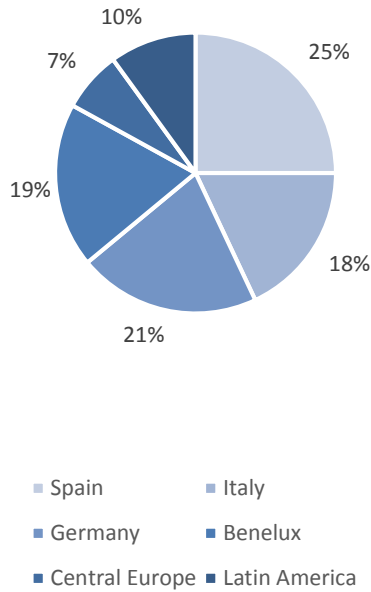
The corporate governance is a system of principles, policies and procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate structure. The corporate governance has the objective to ensure that the assets of the company are used efficiently and in the best interest of its investors and stakeholders.

The current composition of the board of directors comprises “External proprietary directors” who are the directors that owned significant shareholding interest in the capital stock, or whose appointment was proposed by significant shareholders and “External independent directors” which are professionals who can contribute their experience and knowledge to corporate governance and who fulfill the remaining conditions required by regulations, including not being connected to the executive team or to significant shareholders.

Out of the 11 members of the board of directors, 3 are “External Proprietary directors” and 8 are “External independent directors”.

The CEO of the company appointed in the beginning of 2017 is independent and has a wide experience in the Industry. This is another important point in showing NH’s governance structure suitability.

Figure 10: Revenues per B.U.



Source: Company Data

4. Industry Overview and Competitive Positioning

GLOBAL AND EUROPEAN ECONOMIC CONDITIONS

The year 2016 started with a modest and decelerating rate of growth. The beginning of the year was marked by some situations that increased the uncertainty as to the future stability of the economy. These factors were the concern regarding the growth dynamics in China, and the British referendum regarding the continuity of the U.K. in the European Union.

After the uncertainty caused by the weakness of the emerging economies in the first quarter and the outcome of the referendum on the UK's retention in the European Union in the second quarter, between July and September, volatility levels in the financial markets declined considerably, in spite of the shareholder devaluation of the European banking sector, as well as the increase in the probability of a new rise in interest rates by the Fed. The improvement in investor sentiment was reflected, among other things, in the appreciation of the main index of the US stock market index (S&P 500) for a new historical high.

This environment of higher optimism has driven demand for safe haven assets, which has led to falling precious metal prices and rising US and German public debt yields. On the exchange side, the dominant note in the third quarter was the strong depreciation of the sterling pound.

SPAIN ECONOMIC CONDITIONS

After six years of recession, the recovery started in the second half of 2013 and continued to strengthen in 2015 and 2016, with year on year growth exceeding 3% of GDP. Stimulated by domestic demand, growth was boosted by the confidence of households and investors, in turn stimulated by job creation, deflation, better credit conditions, lower oil prices, recovery in Europe, the depreciation of the euro and the implementation of reforms. Growth surpassed expectations in 2016 (3.1% of GDP), supported by domestic demand.

Spain's unemployment rate has fallen due to the decline in the workforce and the creation of new temporary contracts, but it is still very high (under 20%), and a third of wage earners receive a maximum of EUR 707 per month. The crisis has led to a general decline in the standard of living and an increase in inequality. Catalonia has not abandoned its demands for independence, and a new referendum should be convened at the end of 2017. Luckily, the referendum happening or its outcome shouldn't have any impact on NH.

Tourism is the country's largest source of income, which has become the second largest tourist destination in the world, stimulating exports of goods and services. The service sector accounts for two thirds of GDP and employs more than 75% of the population. Figure 11 shows the International tourists arrivals in Spain in past years.

HOSPITALITY INDUSTRY

The hospitality industry is a broad group of businesses that provide services to customers.

This industry is divided in three primary areas:

1. Accommodation: This area includes hotels, motels, bed and breakfasts, and other lodging businesses.
2. Food and beverage: This area comprises restaurants, fast food chains, and other establishments that provide food and beverage.
3. Travel and tourism: This area includes airlines, trains and cruise ships.

The travel and tourism industry is a highly profitable and valuable industry to the global economy, making a direct economic impact of more than two trillion U.S. dollars each year. The largest contribution is made by the European Union, followed by North America and North-East Asia. The number of international tourist arrivals throughout the world grew from 949 million in 2010 to 1,13 billion in 2014 (Figure 13). This number

Figure 11: International tourist's arrivals Spain

Source: UNWTO

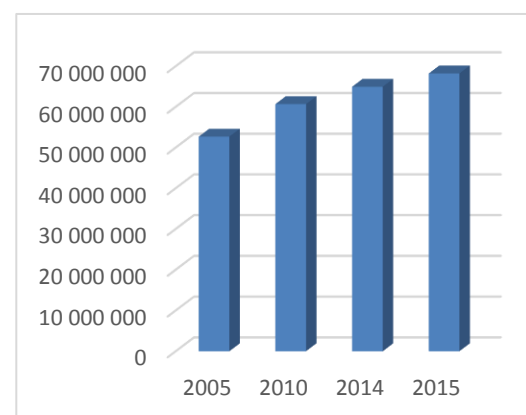
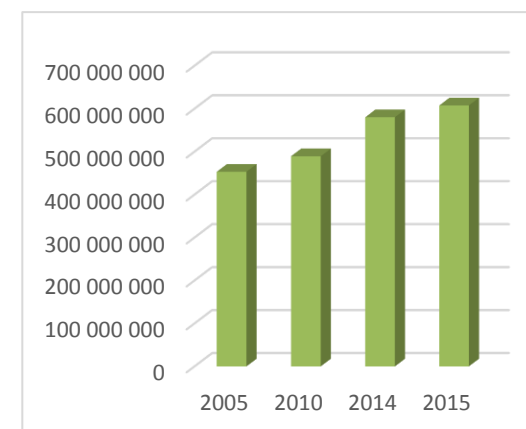


Figure 12: International tourist's arrivals Europe

Source: UNWTO



has increased steadily almost every year and has more than doubled from 527 million in 1995 to approximately 1,19 billion in 2015³.

Intrinsically linked with the travel and tourism industry is the other area of the hospitality industry: Accommodation.

Globally, the Accommodation industry comprises approximately 15,5 million rooms. In 2014 the global hotel industry revenue was 427,69 billion U.S. dollars. This number is set to continue growing at a strong pace also due to faster and cheaper new ways of travelling.

At a European level, the continued conflicts and instability in the Middle East and North Africa may have played an important role in travelers choosing European destinations. Growth has been astonishing despite negative incidents that have impacted tourism economies and travel patterns throughout the world. These included terrorism attacks in Tunisia, Egypt, France and England and political turmoil and continued unrest in Syria. Travel volumes were also driven by improving economic conditions. The weaker euro stimulated travel from outside the Eurozone especially the US and the UK. In contrast, spending from Germany, Italy and Australia grew at a slower rate, while demand from Canada and France was rather weak⁴.

There are different business models within the hotel industry: (Figure 14)

Owned hotels: These hotels are owned and operated by an owner who bears all the costs associated with the hotel but also benefits from all of the income;

Leased hotels: This model is similar to the owned hotels model, except that the owner-operator of a hotel does not have outright ownership of the hotel but pays rental fees to the ultimate owner of the property.

Managed hotels: In this model, the owner of a hotel uses a third-party manager to operate the hotel on its behalf and pays the manager management fees.

Franchised hotels: These hotels are owned and operated by an owner under a third-party brand name, and the owner pays a brand licensing fee to the brand owner.

DEMAND AND SUPPLY

Supply and demand is the fundamental concept behind any industry in the economy. Supply of new hotels cannot be easily or rapidly adjusted on any large-scale basis because the addition of a hotel takes a large investment and a long time. Low levels of new supply help hotels to increase their occupancy rate.

In contrast to this time lag in supply, demand fluctuates daily. One of the main drivers of the demand is the economic recovery and GDP. Eurozone GDP is expected to continue to expand in 2017 by 1.7%⁵, its fastest growth rate since 2011. Demand is also affected by global security concerns as we have already mentioned before (terrorism) so depending on the area demand can grow or decrease based on these happenings. Another factor that can stimulate the travel is a variety of regular as well as one-off events like Football Championships, Expos, Olympics and so on.

As we will see next, occupancy rate increase suggests an increase in the demand.

Occupancy

The occupancy rate is one of the three main indexes used for the Revenue Management in the accommodation industry. It is the share of total rooms available which are occupied or rented at a given time.

- $\text{Occupancy} = \frac{\text{Number of occupied rooms}}{\text{Number of total available rooms}}$

Figure 13: International tourist's arrivals World

Source: UNWTO

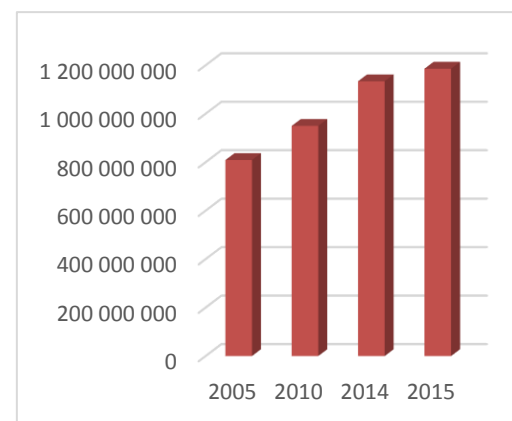


Figure 14: Operating breakdown by contracts

Source: Company Data

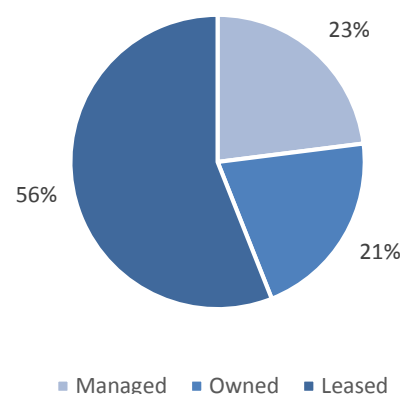


Table 6: Occupancy

Source: Company Data

Occupancy	2014	2015	2016
Spain	63.6	67.5	70.2
Italy	65.2	66.9	67.6
Germany	71.6	69.0	70.0
Benelux	67.4	68.2	66.0
Central Europe	74.7	71.3	75.8
Latin America	70.3	63.5	62.6

3 UNWTO Tourism highlights, 2017 Edition in <https://www.e-unwto.org/doi/pdf/10.18111/9789284419029>

4 European Cities Hotel Forecast 2017&2018, PWC in <https://www.pwc.pt/pt/temas-actuais/european-hotels-forecast.html>

5 Global Economy Watch- Projections, PWC in <https://www.pwc.com/gx/en/issues/economy/global-economy-watch/projections.html>

In 2016 NH Hotels had an occupancy rate of 68.7% the highest rate in the last years and 0.7% higher than in 2015 where the occupancy was 68.0%. The European occupancy was up around 0.6% to 70.4% in 2016⁶.

ADR (Average Daily Rate)

The Average Daily Rate is a measure of the average rental income per paid occupied room in a given period. This statistical tool together with the hotels occupancy are the foundations for the hotels financial performance.

- $ADR = \text{Rooms Revenue} / \text{Rooms Sold}$

The ADR of NH Hotels in 2015 was € 87,1, representing a price increase of 10.4% since 2014 where the ADR was € 78,9. In recent years, the only higher ADR was in 2008, before the crisis, with a rate of € 89,0. In 2016 the ADR of NH Hotels reached € 90,2. The European ADR rose 1.5% from 2015 to 2016 to € 111,77 according to the hotel data supplied by a sample of hoteliers⁷.

RevPAR

RevPAR is a ratio commonly used to measure financial performance in the accommodation industry.

When an analysis is carried out, RevPAR figures can be compared to RevPAR of the hotel during the same time frame of the previous years. It is calculated as follows:

- $RevPAR = \text{Rooms Revenue} / \text{Rooms Available}$

RevPAR only evaluates the income as a percentage of room sales, not including any other factors that also take account into making profitability (like tour sales, room service, and spa bookings. Because it is calculated on a per room basis, one hotel can have a higher RevPAR than another, but still have lower total revenues if the second hotel has more rooms.

RevPAR ratio of NH Hotels has been growing steadily from 53.3 in 2014 to 58.3 in 2015 and finally to 62.0 in 2016 (Figure 15). Overall in 2016, the European hotel industry saw RevPAR increase 2.1% to € 78,64, and it was the seventh year of growth since 2010⁸.

COMPETITIVE ANALYSIS

NH's main competitors are similar hotel chains with a wide international presence. We will not divide the competitors by more luxurious or low-cost hotels, because NH hotels has chosen to leave the low-cost market sector by improving the product and the service and focusing in the upper scale segment.

The main European competitors of NH Hotels based in Spain are: Melia Hotels International, Riu Hotels and Resorts, Barceló Hotels and Resorts and Iberostar Hotels and Resorts. All of the above have their origins focused in the Spanish holiday sector, but have expanded its business models to other segments, eventually also expanding to other European locations. Other NH's competitors with origins in U.K., U.S.A. and others are the following: Intercontinental Hotels Group, Hilton Hotels and Marriot International. The success of the above multinationals is based on a much greater offer than NH, offering certain services and additional products like suites for long stays up to one year and fully equipped apart-hotels. In spite of this, the segments in which they compete with NH (urban and vacation) are qualitatively and geographically comparable. In this way, NH has less global presence, but within the Geographical area of Europe and Latin America, it can be compared in magnitude with any of them.

Table 7: ADR

Source: Company Data

ADR	2014	2015	2016
Spain	69.5	76.9	84.1
Italy	95.4	111.7	108.2
Germany	75.3	79.1	85.3
Benelux	86.0	91.2	98.0
Central Europe	83.2	92.4	92.9
Latin America	68.5	76.5	78.4

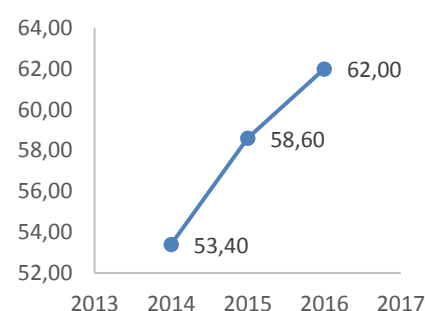
Table 8: RevPar

Source: Company Data

RevPar	2014	2015	2016
Spain	44.2	51.9	59.0
Italy	62.2	74.7	73.2
Germany	53.9	54.5	59.7
Benelux	57.9	62.2	64.6
Central Europe	62.1	65.9	70.4
Latin America	53.4	58.6	62.0

Figure 15: RevPar Evolution

Source: Company Data



⁶ STR Global – Hotel Market Data & Benchmarking, in <https://www.strglobal.com/>

⁷ STR Global – Hotel Market Data & Benchmarking, in <https://www.strglobal.com/>

⁸ STR Global – Hotel Market Data & Benchmarking, in <https://www.strglobal.com/>

SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> -Brand recognition -Global Market Presence -One of the 1st to contribute to sustainable development in the countries where it operates. 	<ul style="list-style-type: none"> -High loan rates -High taxes rates
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> -Big events that fuel international investment and increase hotel value: World Cup, Olympic games...etc -Increasing demand for the accommodation industry -Improvements in corporate rating from B- to B by Standard & Poors & Fitch 	<ul style="list-style-type: none"> -Weak economic conditions -Nature disasters and terrorism -Changes in the law

PORTERS 5 FORCES

Bargaining power of Suppliers: Medium -High

Intermediaries as Expedia.com, Tripadvisor and Booking.com have increased their bargaining power and they pressure hotel profits.

Bargaining power of Customers: High

Nowadays customers have many online tools to compare prices and book last minute affecting hotel chains profits. Because of the very big quantity of hotels available for customers for their choice, they can change from one to another at little or at no cost.

Threat of new entrants: Low

The entry barrier is very high because of the very high capital requirement. Another point is the loyalty programs that offer existing customers incentives for their patronage. This makes it very hard for new hotel brands to attract new customers.

Threat of substitutes: Medium - High

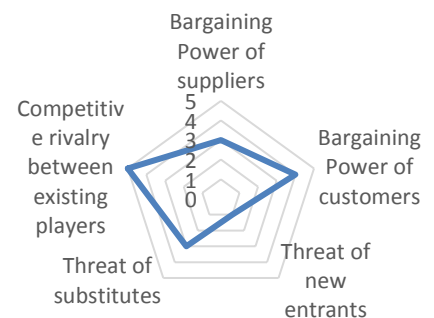
Many cities have seen significant growth in serviced apartments and shared accommodation platforms and this growth in the peer-to-peer rental stock could continue to outpace hotel room supply in 2017. In this sense, the threat to NH is only medium as they are focusing on improving the quality, betting on the product differentiation and upgrading the hotels to the Upper Upscale.

Competitive rivalry between existing players: High

Usually hotels compete on services and not on prices. They focus specially in product differentiation in their segmented markets. With the refurbishment plan started in 2012 NH is improving its products and services, differentiating itself from its competitors.

Figure 16: Porter's 5 Forces

Source: Author

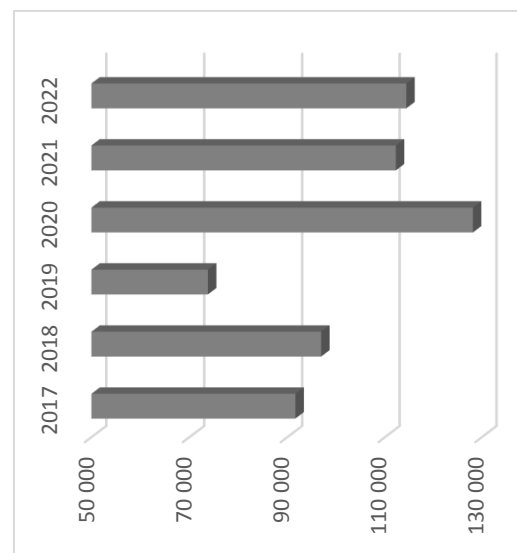


5. Investment Summary

Our recommendation for NH stands for hold with a 2017YE target price of € 5.69/sh and a three-month upside potential of 0.35% with medium risk. In the relative valuation through multiples analysis we have an average price target of € 6.63/sh, supporting our view that NH is currently slightly undervalued.

Figure 17: FCFF Evolution

Source: Author



VALUATION METHODS

For evaluating NH Hotels S.A., we used two different valuation methods:

- Absolute valuation model

For this model, the Discounted Cash Flow approach was used. This approach determines the total value of the firm to all investors. It is the most suitable approach for NH as the company's dividends distribution for the future is not clear. The value of the company was determined using WACC to discount the Free Cash Flow to the Firm (FCFF) (Figure 17). FCFF is calculated adjusting the EBIT for the net debt.

- Relative valuation model

For this model, we used the Market Multiples approach. In this approach, the goal is to value assets based upon how similar assets are currently priced in the market. In relative valuation, the multiple is computed for all the companies in a group then compared across these companies to make judgements if they are overpriced or underpriced.

Investment Risks

This industry can be strongly affected by changes in the demand which would affect the Occupancy rate. Risks such as terrorism attacks, although being difficult to predict but that have been growing in Europe in latest times, can potentially lead to the loss of costumers.

Risks to Price Target

To assess the investment risks and its possible repercussions on our price target, a sensitivity analysis has been performed. The main variables tested were the occupancy and the ADR rates to analyze how small changes in these variables could impact our target price.

6. Valuation

DCF VALUATION APPROACH

Using a discounted cash flow (DCF) valuation method, a target price of € 5.69/sh was reached with an upside potential of 0.35% from its closing price of € 5.67/sh on the 29th September 2017.

In our opinion, NH is currently slightly undervalued and based on the above valuation, we recommend to Hold, although with medium risk.

The DCF model is deeply influenced by the following factors:

Total Revenue

In this research, we consider the revenues of the company as a whole, without splitting them by geography or business segment. The reason for this is that NH also doesn't consider the revenues as split in its annual income statements, so we have decided to follow the same path.

Total Revenues is the sum between room revenues and other operating income. It includes hotel revenue from owned and leased hotels, fee revenue from management agreements, real estate revenues and other non-hotel revenues. Revenue from owned and leased hotels consists of room sales and food and beverage sales through restaurants, bars, conference facilities and in-room dining. Additionally, we obtain revenue from renting conference rooms for meetings, conventions and other events as well as telephone, parking and all other guest services.

Room revenues

Revenue from our existing hotels is primarily affected by Occupancy and ADR. Both Occupancy and ADR are strongly correlated to general economic conditions, the strength of the travel industry and the supply and demand of hotel accommodation in a specific market. Occupancy is also affected by the supply of hotel rooms in the area surrounding each of our hotels, and increases in hotel room supply, which can increase competition and make it more difficult to achieve high Occupancy. Overall, Europe is expected to continue to see relatively low levels of new hotel supply growth and a growth in international tourism arrivals of between 2% and 3% in 2017. (PWC).

For forecasting the revenues, the ADR and Occupancy Rates were forecasted, assuming a growth based on the average growth of the last 3 years.

Other operating income

Other operating income includes extraordinary income not allocable within the regular operations, including operating subsidies, compensation paid to NH in connection with termination of contracts, indemnities and the capitalization of expenses related to work completed with respect to its own hotels. As for other operating income, it was assumed that it will remain stable over time adjusted only for the forecasted inflation rate.

Staff cost

Personnel is the second largest cost in NH, in the last 3 years it accounted for an average of 29.21% of the total revenues. Staff costs have increased steadily in the last 3 years together with total Revenues and higher Occupancy. As we predict further increase in Occupancy and Revenues in the coming years, we predict that Staff Cost will also increase.

Other operating expenses

Other operating expenses account for the largest cost in NH. A significant portion of other operating expenses is rent expense, which is primarily determined by NH's ability to negotiate favorable terms under its lease agreements and the general economic conditions in the region in which the hotel is located. Other operating expenses include fees paid for professional and other services; commissions payable to third parties; energy costs; repair and maintenance costs; laundry expenses; sales and distribution costs; advertising costs; expenses related to information technology and

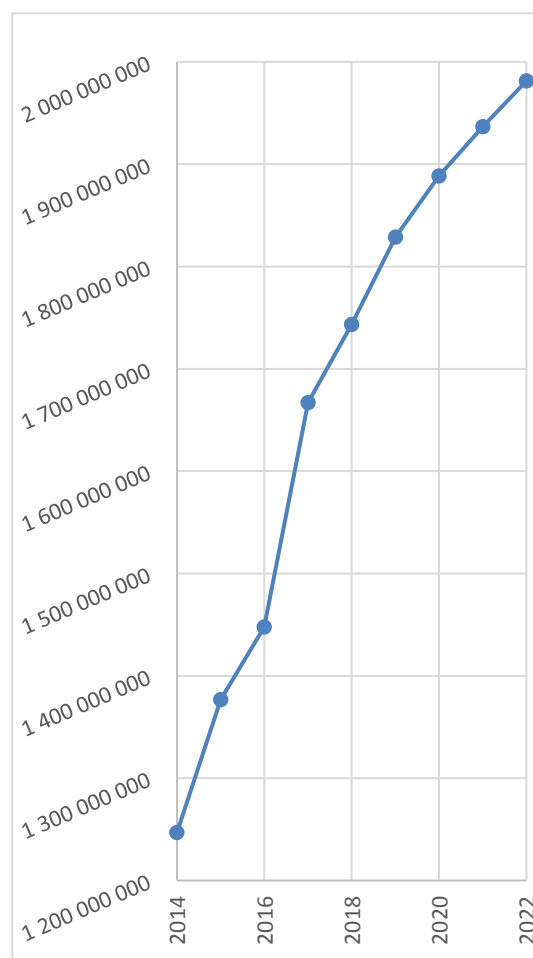
Table 9: Revenues by B.U.

Source: Company Data

Revenues	2014	2015	2016
Spain	295.3	325.5	361.4
Italy	227.1	267.0	266.4
Germany	288.3	288.3	307.7
Benelux	256.6	263.7	276.1
Central Europe	92.6	93.5	99.1
Latin America	87.1	138.6	137.3
Total	1,247.0	1,376.6	1,447.9

Figure 18: Revenues evolution

Source: Company Data, Author



telecommunication; allowances for contingency provisions; operational taxes, including real estate and property taxes; and property insurance payments.

We believe that as also shown in the past years, the above expenses will remain stable over time, and will only be adjusted by the predicted inflation rate.

Capital Expenditure (Capex)

NH's capital expenditures consist primarily of expenditures towards maintenance of the hotel facilities, the opening of new hotels and information technology. Maintenance capital expenditures include repairs, ordinary course maintenance expenses and expenditures necessary to comply with legal requirements, such as occupational, health and safety standards.

In 2014, 2015 and 2016, investments in property, plant and equipment were mainly related to the brand development initiative, refurbishment program and the maintenance of the hotel facilities.

In the year ended December 31, 2016, NH invested approximately € 82,0 million as part of the repositioning initiative started in 2014 and it expects to invest approximately an additional € 9,7 million during 2017 to complete approximately € 200 million of investments since the plan was launched in 2014. In this scenario, we predict that CAPEX will largely decrease in 2017, as 58 of 65 hotels have already been refurbished and the company expects to invest € 9,7 million for this in 2017. As the refurbishment plan will end in 2017, the CAPEX related to property, plant and equipment will be largely lower in the coming years.

As per the capital expenditures associated to Intangible assets, these are mainly related to investments for the overhaul of the IT management systems and the upgrade of the software applications. These expenditures we assume that will remain stable over time as they have been for the last years, considering that the IT systems will continue needing maintenance and upgrades over the coming years. Altogether, we predict a stable lower CAPEX as from 2017 considering the investments in property, plant and equipment will decrease greatly. (Figure 19)

Depreciation and amortization

Depreciation allowances mainly include the amortization of the tangible fixed assets, consisting primarily of buildings, technical installations, machinery, fittings, furniture and equipment. As we have predicted that the tangible fixed assets will remain steady over the coming years, the depreciation and amortization allowance will also be relatively steady accordingly.

Net Working Capital

NH's working capital requirements largely arise from its trade and other receivables, which primarily consist of amounts owed by its customers. The liabilities to the trade creditors include accounts payable arising from regular trading activities, and advance payments from customers, which includes customer deposits arising from the hotels. Historically NH has funded its working capital requirements through funds generated from operations, from borrowings and other indebtedness and through funds from other finance resources. We predict a decrease in the net working capital in the next years mainly due to the decrease in the trade and other receivables and in the trade creditors accounts.

WACC Assumptions

WACC is the weighted average of the after (corporate) tax required rates of return for debt and equity and uses the weights of debt and equity of the company's target capital structure.

For calculating the WACC we assumed a Risk-free rate (Rf) of 0.60% based on the 10-year German government bonds. The Country Risk Premium (CRP) was assumed in 1.12% and the Market Risk Premium (MRP) in 6.00% based on market reports.

In order to calculate the beta levered (β) we first researched for the unlevered beta of the industry, which is 0.64 as per Aswath Damodaran in January 2017, and then applied the below formula to reach our levered betas for the years 2017F to 2022F.

Figure 19: CAPEX Evolution

Source: Company Data, Author

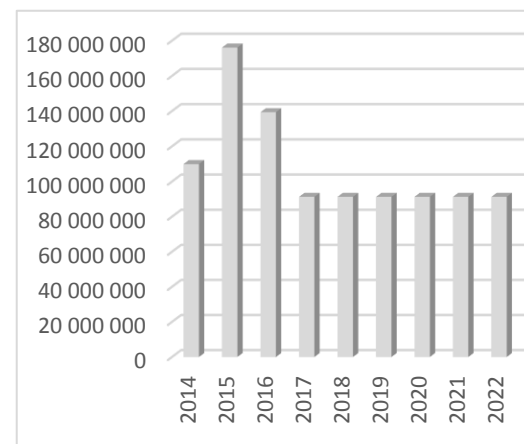


Table 10: WACC

Source: Author

DCF analysis	2017F
Cost of Equity	
RFR (risk free rate)	0,60%
CRP (country risk premium)	1,12%
MRP (market risk premium)	6,00%
Beta unlevered	0,64
Beta levered	1,26
Cost of Equity [$R_f + \beta(R_m - R_f)$]	9,26%
Cost of Debt	
Cost of debt	6,54%
Marginal tax rate	25,00%
After-tax cost debt	4,91%
WACC	
Weight of equity	42,72%
Weight of debt	57,28%
WACC	6,77%

$$\beta I = \text{Unlevered Beta} (1 + (1 - \text{tax rate}) (\text{D/E Ratio}))$$

We calculated the Cost of Equity (ke) using the Capital Asset Pricing Model (CAPM). It is the rate of return a firm pays to its equity investors. For this we used the below formula:

$$K_e = R_f + \beta(R_m - R_f) + \text{CRP}$$

We used a fixed cost of debt (kd) of 6.54% calculated by dividing the interest expenses by the company's total debt and a Marginal Tax Rate (T) of 25% according to Spanish law. (Table 10)

RELATIVE VALUATION

The relative valuation approach is complementary and the objective is to cross check the results already obtained in our absolute valuation model. One of the main supposition is that a company can be valued based on the value of its peers. This is why selecting the correct peers is so important. Next, I will describe the peer selection process.

Peer Group

The first step was to get all biggest hotel chains in the world. This first list consisted of 30 firms. However, even if the essence is similar to NH's, there are some other differences that had to be considered. Of our first list, we filtered by checking first if the company is traded in a stock exchange, second if it is international, and last if it had at least 50 000 rooms in Europe. The remaining companies in the list were filtered in terms of revenues, total rooms, Beta, ROE and ROA. As a result, we selected the following 5 firms considered as appropriate peers for our Valuation: Melia Hotels International (ES), Hilton Hotels (U.S.), Marriot International (U.S.), Intercontinental Hotels Group (U.K.) and Accor (FR).

To calculate NH's stock value by the multiple valuation the multiple EV/EBITDA and Price/Earnings (P/E) was used.

EV/EBITDA realized a target price of € 7.75/sh for 2017YE, representing an upside potential of 42%.

For the P/E a target price of € 5.51/sh was reached for 2017YE, representing an upside potential of 1%.

The result of the P/E strengthens the results concluded by the DCF valuation and reinforces our perspective that NH is indeed undervalued. However, considering the two multiples, we reach an average price target of € 6.63 representing a difference of € 0.94 compared to DCF valuation. (Table 12)

Despite the very useful information provided by the multiples valuation approach, as already mentioned before, it is considered a complementary approach. The approach supports our view and our recommendation remains to Hold.

Table 11: DCF Valuation

Source: Author

Target Price	
Enterprise value	2 707 533
Net debt	714 013
Value of equity	1 993 520
Number of shares outstanding	350 270
Equity value per share	5,69

Table 12: Multiples Valuation

Source: Author

Multiples Valuation	
EV/EBITDA Target Price	7,75
P/E Target Price	5,51
Multiples Average	6,63
Difference	0,94

7. Financial Analysis

EBITDA Margin

From 2014 to 2015 EBITDA increased from € 88,1 million to € 124,3 million, an increase of € 36,2 million. Or 41.1%. In 2016 the EBITDA increased further, to € 219,3 million, an increase of € 94,9 million or 76.3%. This increase was primarily due to an increase in net turnover, primarily driven by increased ADR and Occupancy rates, as well as an improvement in efficiency in operating expenses. EBITDA increased despite certain external factors such as the security problems in Belgium relating to terrorist attacks and the fluctuations in exchange rates in Latin America. The ongoing implementation of its strategic plan since 2013 has been a key driver underlying the increase in NH's EBITDA. It will continue to grow steadily and reach € 254,570 million in 2022.

Liquidity

NH's main sources of liquidity are cash flows from operations and cash proceeds from financing activities. Sales of non-strategic assets provide additional liquidity. NH's cash flows have historically been sufficient to meet its liquidity requirements. In 31.12 2016, the group had cash and cash equivalents amounting to € 136,733 thousand. It also has capacity to increase its financial borrowing. Operational improvements and deleveraging have helped to reduce costs and risks. The debt burden and the cost of debt have been reducing in the last years. Considering the groups focus on operational improvements, it should keep decreasing between 2017 and 2022.

EBIT

Revenues are mainly affected by Occupancy and ADR rates. Both are strongly correlated to general economic conditions. EBIT has increased greatly from € 17,128 million in 2014 to € 106,703 million in 2016. With the GDP growth projection in the Eurozone and U.S. in the coming years the groups EBIT will see further increase reaching € 169,138 million in 2022. (Figure 21)

Costs

Since 2013, NH has implemented a cost savings initiative to reduce its fixed cost. The group has already consolidated the janitorial and maintenance services on a regional basis and outsourced the janitorial services. This restructuring makes the groups cost structure more efficient, allowing to increase or decrease services in accordance with occupancy levels. In 2015, the centralization of the administrative staff was completed in most countries through the implementation of a shared service center. With the ongoing implementation of the strategic plan, the operating expenses will decrease as a percentage of revenues.

Dividend policy

NH has not paid any dividends in the years 2014 and 2015. Its dividend policy is uncertain. In 2016 dividends were distributed of € 0,003 per outstanding share representing € 1,056 million. In 2017 there is a proposal for General Shareholders Meeting approval of a new long-term incentive plan aligned with value generation for shareholders and of the distribution of a dividend for a maximum gross of € 0,05 per outstanding share, representing an estimated pay-out of € 17 million.

Return on Equity (ROE)

NH's ROE was negative in the years 2014 and 2015, standing at -3.7% and -0.2% respectively but recovered in 2016 reaching 3.2%. From 2016 until the end of the valuation period, the ROE will continue increasing at an average of 0.6% per year. This growth is to be attributed to the higher profits achieved. (Figure 22)

Figure 20: Net Profit Evolution

Source: Company Data, Author

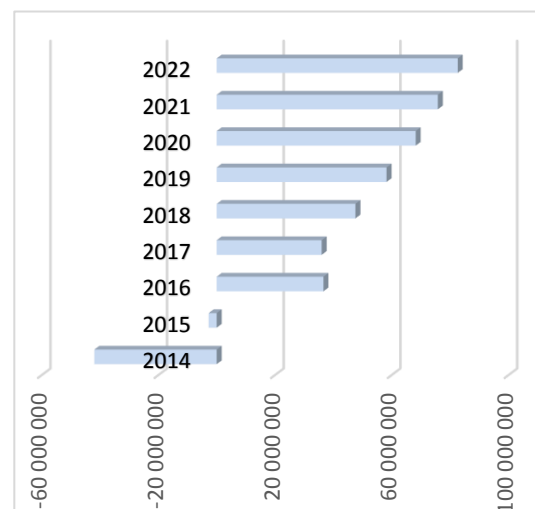


Figure 21: EBIT Evolution

Source: Company Data, Author

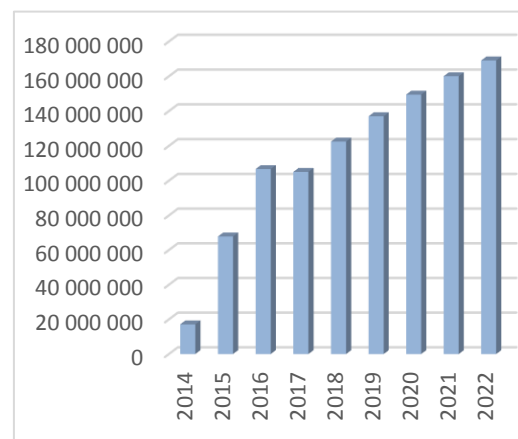
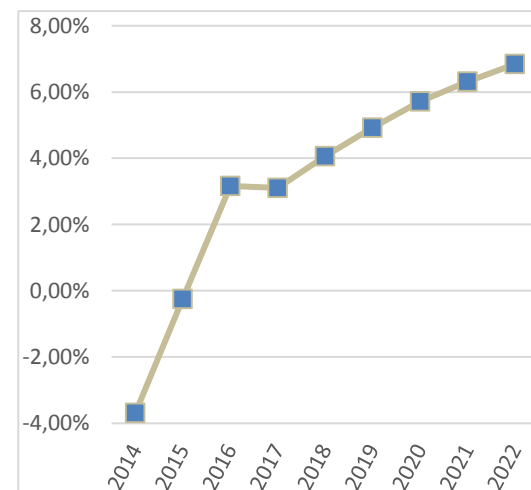


Figure 22: ROE Evolution

Source: Author



8. Investment Risks

Market and Economic Risk

-Change in demand /Macroeconomics (MER1)

The change in demand can depend on many factors that affect the global travel and business activity. These events can be for example unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, and other political instability; and other catastrophic events, whether occurring in Europe or internationally. NH Hotels operations are exposed to the risk of the above-mentioned events that adversely affect domestic or international travel. And significantly affect the group's results.

-Terrorism (MER2)

As we have seen already before in this research, terrorism can potentially adversely affect the domestic or international travel. The recent terrorist attacks in Paris, London and Manchester could result in people travelling less out of fear, decreasing the hotels industry occupancy rate. This would have a big impact in the groups revenues. A good example is Paris, where after the terrorist attacks in November 2015 the Occupancy has decreased from 77% in 2015 to 69% in 2016.

Regulatory and Legal Risk

-Litigation (RL1)

In the normal course of the accommodation industry business, hotels are often involved in various legal proceedings. The outcome of these proceedings cannot be predicted. If any of these proceedings were to be determined adversely to the hotel or a settlement involving a payment of a material sum of money were to occur, there could be a material adverse effect on the group's financial condition and results of operations. Contractual and other disagreements with third-parties could also result in litigation costs or other expenses, which could lower the profits.

- Regulatory Requirements (RL2)

NH is subject to numerous laws and regulations in the jurisdictions in which they operate. Compliance with applicable rules and regulations and related dialogue with regulatory authorities involve significant costs and resources. This could increase the costs and liabilities, reduce the margins and cash flow and impact their ability to run the business.

-Tax rates (RL3)

NH's Hotels that are profit making are subject to profit and income tax, among others in the markets in which it operates. Changes in tax laws and tax rates may lead to higher tax expenses and liabilities and could have a material adverse effect on the business, results of operations or financial condition. This type of changes are unpredictable and there is no guarantee that they may not be changed in the future.

Operational Risk

-Personnel (OR1)

Increased labor costs due to labor shortages could restrict NH's ability to operate the properties and to grow its business. NH's success depends in large part upon the ability to attract, retain, train, manage and engage the employees. Because personnel expenses are a major component of the operating expenses at its properties, a shortage of skilled labor could also require higher wages, which would increase the personnel expenses, and could reduce profits and cash flow.

-Reputation Risk (OR2)

For chain hotel operator, the brand, image and reputation constitute a significant part of the value proposition and serve to enhance the recognition among customers. NH depends on its ability to develop the brand and image as a leading hotel operator

Figure 23: Risk Matrix

Source: Author



across Europe, and to leverage this reputation in other markets where it has a growing presence. Travelers expect a consistent level of quality and value, and any event, such as the poor quality of products and services, whether as a result of the actions of employees or financial limitations, that leads to customer complaints or negative publicity or reviews by customers could damage the hotel's image, reputation or brand, which could negatively affect the business.

Financial Risk

-Liquidity (FR1)

In 2016 NH invested approximately € 82,0 million as part of our repositioning initiative started in 2014 and it is expected to invest approximately an additional € 9,7 million during 2017 to complete approximately € 200 million of investments since the plan was launched in 2014. As of December 31, 2016, a total of 58 hotels have been refurbished and, upon completion of this initiative, 65 hotels will have been refurbished, representing approximately 17% of the hotels portfolio.

The refurbishment program involves modernizing rooms and common areas by refreshing paint and floor coverings and replacing furnishings and finishings. NH's ability to execute this capital-intensive refurbishment program will depend on its ability to generate cash, and there is no guarantee that it will generate sufficient cash in order to complete the refurbishment program. The inability to generate sufficient cash to carry out work necessary to maintain such properties could have a material adverse effect on the operations in these hotels and ultimately the value of these assets.

Another point is that the business may not generate sufficient cash flows from operations, and additional debt and equity financing may not be available in an amount sufficient to enable it to pay its debts when due.

If NH's future cash flows from operations and other capital resources are insufficient to pay its obligations as they mature or to fund its liquidity needs it may be forced to reduce or delay business activities and capital expenditures; sell its assets or obtain additional debt or equity financing.

-Capital /Debt (FR2)

The hotel industry is a capital-intensive business that requires significant capital expenditures to develop, operate, maintain and renovate properties. Access to the capital that hotel proprietors need to finance the construction of new properties or to maintain and renovate existing properties is critical to the continued growth of the business and the net turnover.

If NH Hotels Group is unable to access the capital necessary to fund current operations or implement its growth plans, profits could be reduced and the ability to compete effectively could be diminished.

Recently, the credit markets and the financial services industry have experienced a period of significant disruption, increased volatility in securities prices and diminished liquidity and credit availability. As a result of these market conditions, the cost and availability of capital has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. These disruptions could also result in reductions of credit ratings, which would increase the cost of borrowing.

-Foreign Currency (FR3)

NH is subject to foreign exchange risk because its net turnover in each region is generated in the local currencies of the region. Conducting business in currencies other than the euro, subjects NH to fluctuations in currency exchange rates that could have a negative effect on the financial results. However, foreign currency risk has a low impact as NH's smallest Business Unit is America with only 10% of the total operations of the Group.

-Interest Rates (FR4)

Rising interest rates could limit the ability of NH to refinance existing debt when it matures and increase interest costs on any refinancing indebtedness. Although there is the option to entering into agreements such as interest rate swaps or other interest rate hedging agreements designed to reduce any such floating interest expense payment, these agreements would also expose NH to other risks.

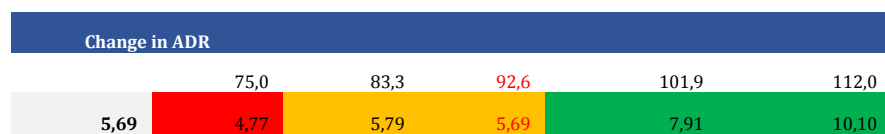
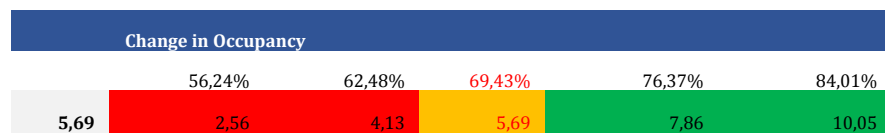
Risk to price Target

A sensitivity analysis was performed, for being able to compute the impact to our price target, of the main risks associated to the industry.

For the sensitivity analysis, the change in many variables were tested as changes in Terminal Growth, Country Risk Premium, and Staff Cost, but the main focus was on the impact of changes in Occupancy and ADR.

Figure 24: Sensitivity analysis

Source: Author



Appendices

Appendix 1: Statement of Financial Position

Balance Sheet (EUR '000)	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
NON-CURRENT ASSETS	2 131 448	2 321 774	2 218 647	2 218 647	2 218 647	2 218 647	2 218 647	2 218 647	2 218 647
Goodwill	93 923	118 793	117 736	117 736	117 736	117 736	117 736	117 736	117 736
Intangible assets	78 842	119 282	126 453	126 453	126 453	126 453	126 453	126 453	126 453
Tangible fixed assets	1 606 360	1 724 166	1 701 428	1 701 428	1 701 428	1 701 428	1 701 428	1 701 428	1 701 428
Investments accounted for using the equity method	17 816	16 678	10 646	10 646	10 646	10 646	10 646	10 646	10 646
Deferred tax assets	157 858	165 797	152 389	152 389	152 389	152 389	152 389	152 389	152 389
Other non-current assets	176 649	177 058	109 995	109 995	109 995	109 995	109 995	109 995	109 995
CURRENT ASSETS	529 551	389 113	408 590	434 426	447 968	431 855	469 759	475 250	479 459
Non-current assets classified as held for sale	95 193	45 034	46 685	46 685	46 685	46 685	46 685	46 685	46 685
Inventories	8 226	9 508	9 870	11 291	11 911	12 450	12 851	13 198	13 491
Trade receivables	136 012	169 269	146 197	185 035	194 641	197 280	208 082	212 841	216 589
Non-trade receivables	69 789	73 115	54 510	93 295	92 595	68 851	92 374	90 167	87 914
Short term financial investments	2 787	2 190	1 918	1 918	1 918	1 918	1 918	1 918	1 918
Cash and cash equivalents	200 103	77 699	136 733	83 348	87 170	91 441	94 434	96 837	99 068
Other current assets	17 441	12 298	12 677	12 854	13 047	13 230	13 415	13 603	13 793
TOTAL ASSETS	2 660 999	2 710 887	2 627 237	2 653 073	2 666 615	2 650 502	2 688 406	2 693 897	2 698 106
Share capital	700 544	700 544	700 544	700 544	700 544	700 544	700 544	700 544	700 544
Legal Reserves	536 140	527 317	527 133	527 133	527 133	527 133	527 133	527 133	527 133
Other equity instruments	27 230	27 230	27 230	27 230	27 230	27 230	27 230	27 230	27 230
Currency translation difference	-102 659	-130 347	-133 765	-133 765	-133 765	-133 765	-133 765	-133 765	-133 765
Treasury shares and shareholding	-38 805	-37 561	-39 983	-39 983	-39 983	-39 983	-39 983	-39 983	-39 983
Consolidated profit for the period	-9 983	938	30 750	36 017	47 599	58 243	68 230	75 816	82 622
Equity attributable to the shareholders of the Parent Company	1 112 467	1 088 121	1 111 909	1 117 176	1 128 758	1 139 402	1 149 389	1 156 975	1 163 781
Non-controlling interests	24 201	37 963	43 967	43 967	43 967	43 967	43 967	43 967	43 967
TOTAL EQUITY	1 136 668	1 126 084	1 155 876	1 161 143	1 172 725	1 183 369	1 193 356	1 200 942	1 207 748
NON-CURRENT LIABILITIES	1 060 852	1 155 004	1 099 716	1 007 078	965 390	900 247	899 521	827 391	798 667
Total debt	735 708	810 413	837 792	745 154	703 466	638 323	637 597	565 467	536 743
Other non-current liabilities	88 484	99 180	34 037	34 037	34 037	34 037	34 037	34 037	34 037
Provisions for contingencies and charges	56 930	48 700	52 900	52 900	52 900	52 900	52 900	52 900	52 900
Deferred tax liabilities	179 730	196 711	174 987	174 987	174 987	174 987	174 987	174 987	174 987
CURRENT LIABILITIES	463 479	429 799	371 645	484 852	528 500	566 886	595 529	665 564	691 690
Liabilities associated with non-current assets held for sale	56 075	0	2 661	2 661	2 661	2 661	2 661	2 661	2 661
Total debt	75 484	80 152	26 535	52 206	66 189	62 616	39 560	60 750	32 885
Payables	271 521	301 878	274 707	348 261	359 104	368 586	388 088	395 742	403 771
Provisions for contingencies and charges	14 835	5 330	11 462	11 462	11 462	11 462	11 462	11 462	11 462
Other current liabilities	45 564	42 439	56 280	70 262	89 084	121 561	153 757	194 949	240 911
TOTAL LIABILITIES	1 524 331	1 584 803	1 471 361	1 491 930	1 493 890	1 467 133	1 495 050	1 492 955	1 490 357
TOTAL EQUITY AND LIABIL.	2 660 999	2 710 887	2 627 237	2 653 073	2 666 614	2 650 502	2 688 406	2 693 897	2 698 105

Appendix 2: Income Statement

Income Statement (EUR '000)	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
Operating revenues	1 249 248	1 376 998	1 497 116	1 674 747	1 751 317	1 836 849	1 896 822	1 944 991	1 989 718
Expenses	-441 114	-465 737	-482 746	-554 665	-573 541	-599 412	-619 217	-633 080	-647 231
Gross profit	808 134	911 261	1 014 370	1 120 082	1 177 776	1 237 437	1 277 605	1 311 911	1 342 487
<i>Gross profit margin</i>	64,7%	66,2%	67,8%	66,9%	67,3%	67,4%	67,4%	67,5%	67,5%
Other operating expenses	-720 000	-787 075	-795 011	-915 286	-957 265	-1 004 168	-1 037 036	-1 063 422	-1 087 917
EBITDA	88 134	124 186	219 359	204 796	220 511	233 269	240 569	248 489	254 570
<i>EBITDA margin</i>	7,1%	9,0%	14,7%	12,2%	12,6%	12,7%	12,7%	12,8%	12,8%
D&A	-98 516	-106 159	-114 170	-101 239	-99 496	-97 707	-92 598	-89 917	-86 945
Impairments	27 510	49 859	1 514	1 514	1 514	1 514	1 514	1 514	1 514
EBIT	17 128	67 886	106 703	105 071	122 529	137 077	149 485	160 086	169 139
Interest Expenses	-43 470	-57 566	-62 145	-57 049	-59 064	-59 419	-58 511	-58 998	-58 976
Earnings Before Taxes (EBT)	-26 342	10 320	44 558	48 022	63 465	77 657	90 974	101 088	110 162
Tax expenses	-15 611	-13 082	-7 935	-12 006	-15 866	-19 414	-22 743	-25 272	-27 541
Net profit	-41 953	-2 762	36 623	36 017	47 599	58 243	68 230	75 816	82 622
<i>Net profit margin</i>	-3,4%	-0,2%	2,4%	2,2%	2,7%	3,2%	3,6%	3,9%	4,2%

Appendix 3: Cash Flow Statement

Cash Flow Statement (EUR '000)	2017F	2018F	2019F	2020F	2021F	2022F
OPERATING ACTIVITIES						
EBIT	105 071	122 529	137 077	149 485	160 086	169 139
D&A	101 239	99 496	97 707	92 598	89 917	86 945
Change in NWC	-2 916	3 177	35 424	-14 758	6 419	8 083
Income Tax	-12 006	-15 866	-19 414	-22 743	-25 272	-27 541
Total Cash Flow from Operating Activities	191 388	209 335	250 793	204 582	231 150	236 626
INVESTING ACTIVITIES						
CAPEX	-91 300	-91 300	-91 300	-91 300	-91 300	-91 300
Total Cash Flow from Investing Activities	-91 300	-91 300	-91 300	-91 300	-91 300	-91 300
FINANCING ACTIVITIES						
Dividend paid	-17 513	-17 513	-17 513	-17 513	-17 513	-17 513
Interest paid	-68 994	-68 994	-68 994	-68 994	-68 994	-68 994
Net borrowing	-92 638	-41 688	-65 143	-726	-72 130	-28 724
Total Cash Flow from Financing Activities	-179 145	-128 195	-151 650	-87 233	-158 637	-115 231
Short term Debt (Overdrafts)	25 671	13 982	-3 572	-23 056	21 190	-27 865
Beginning balance of cash	136 733	83 348	87 170	91 441	94 434	96 837
Net change in cash	-53 385	3 823	4 271	2 993	2 403	2 231
Ending balance of cash	83 348	87 170	91 441	94 434	96 837	99 068

Appendix 4: Key Financial Ratios

Key Financial Ratios	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
Liquidity Ratios									
Current Ratio (x)	1,14	0,91	1,10	0,90	0,85	0,76	0,79	0,71	0,69
Quick Ratio (x)	0,67	0,69	0,69	0,69	0,65	0,57	0,60	0,55	0,53
Cash Ratio (x)	0,43	0,18	0,37	0,17	0,16	0,16	0,16	0,15	0,14
Efficiency Ratios									
Total Assets Turnover (x)	0,47	0,51	0,57	0,63	0,66	0,69	0,71	0,72	0,74
Accounts Receivables Turnover (x)	12,14	11,36	14,92	12,03	12,19	13,80	12,63	12,84	13,07
Collection Period (days)	30,07	32,12	24,47	30,33	29,93	26,44	28,91	28,43	27,93
Inventory Turnover (x)	-53,62	-48,98	-48,91	-49,12	-48,15	-48,15	-48,18	-47,97	-47,98
Days in Inventory (days)	-6,81	-7,45	-7,46	-7,43	-7,58	-7,58	-7,58	-7,61	-7,61
Payables Turnover (x)	-1,59	-1,51	-1,72	-1,56	-1,56	-1,59	-1,56	-1,57	-1,57
Payables Period (days)	-228,94	-241,51	-212,04	-233,94	-233,38	-229,20	-233,61	-233,02	-232,55
Operating Cycle (days)	23,26	24,67	17,00	22,90	22,35	18,86	21,33	20,82	20,32
Cash Cycle (days)	252,20	266,19	229,04	256,84	255,73	248,06	254,94	253,84	252,87
Profitability Ratios									
Gross Profit Margin (%)	64,7%	66,2%	67,8%	66,9%	67,3%	67,4%	67,4%	67,5%	67,5%
EBITDA Margin (%)	7,1%	9,0%	14,7%	12,2%	12,6%	12,7%	12,7%	12,8%	12,8%
EBIT Margin (%)	1,4%	4,9%	7,1%	6,3%	7,0%	7,5%	7,9%	8,2%	8,5%
Net Profit Margin (%)	-3,4%	-0,2%	2,4%	2,2%	2,7%	3,2%	3,6%	3,9%	4,2%
ROA (%)	-1,6%	-0,1%	1,4%	1,4%	1,8%	2,2%	2,5%	2,8%	3,1%
ROCE (%)	0,6%	2,5%	4,1%	4,0%	4,6%	5,2%	5,6%	5,9%	6,3%
ROE (%)	-3,7%	-0,2%	3,2%	3,1%	4,1%	4,9%	5,7%	6,3%	6,8%
Solvency Ratios									
Long- and short-term Debt Ratio (%)	30,5%	32,9%	32,9%	30,1%	28,9%	26,4%	25,2%	23,2%	21,1%
Long-term Debt Ratio (%)	27,6%	29,9%	31,9%	28,1%	26,4%	24,1%	23,7%	21,0%	19,9%
Debt to Equity Ratio (x)	1,3	1,4	1,3	1,3	1,3	1,2	1,3	1,2	1,2
Equity Multiplier (x)	2,3	2,4	2,3	2,3	2,3	2,2	2,3	2,2	2,2
Debt to EBITDA	9,2	7,2	3,9	3,9	3,5	3,0	2,8	2,5	2,2
Interest Coverage Ratio (x)	-0,4	-1,2	-1,7	-1,8	-2,1	-2,3	-2,6	-2,7	-2,9
Industry Specific Ratios									
Occupancy	67,7%	67,6%	68,4%	69,4%	70,5%	71,5%	72,6%	73,7%	74,8%
ADR	78,90	86,60	90,60	92,39	95,20	98,39	100,11	101,14	101,94
RevPar	53,42	58,54	61,97	64,14	67,09	70,37	72,68	74,53	76,24

Appendix 5: Common-Size Statement of Financial Position

Balance Sheet (Common Size)	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
NON-CURRENT ASSETS	80,10%	85,65%	84,45%	83,63%	83,20%	83,71%	82,53%	82,36%	82,23%
Goodwill	3,53%	4,38%	4,48%	4,44%	4,42%	4,44%	4,38%	4,37%	4,36%
Intangible assets	2,96%	4,40%	4,81%	4,77%	4,74%	4,77%	4,70%	4,69%	4,69%
Tangible fixed assets	60,37%	63,60%	64,76%	64,13%	63,80%	64,19%	63,29%	63,16%	63,06%
Investments accounted for using the equity method	0,67%	0,62%	0,41%	0,40%	0,40%	0,40%	0,40%	0,40%	0,39%
Deferred tax assets	5,93%	6,12%	5,80%	5,74%	5,71%	5,75%	5,67%	5,66%	5,65%
Other non-current assets	6,64%	6,53%	4,19%	4,15%	4,12%	4,15%	4,09%	4,08%	4,08%
CURRENT ASSETS	19,90%	14,35%	15,55%	16,37%	16,80%	16,29%	17,47%	17,64%	17,77%
Non-current assets classified as held for sale	3,58%	1,66%	1,78%	1,76%	1,75%	1,76%	1,74%	1,73%	1,73%
Inventories	0,31%	0,35%	0,38%	0,43%	0,45%	0,47%	0,48%	0,49%	0,50%
Trade receivables	5,11%	6,24%	5,56%	6,97%	7,30%	7,44%	7,74%	7,90%	8,03%
Non-trade receivables	2,62%	2,70%	2,07%	3,52%	3,47%	2,60%	3,44%	3,35%	3,26%
Short term financial investments	0,10%	0,08%	0,07%	0,07%	0,07%	0,07%	0,07%	0,07%	0,07%
Cash and cash equivalents	7,52%	2,87%	5,20%	3,14%	3,27%	3,45%	3,51%	3,59%	3,67%
Other current assets	0,66%	0,45%	0,48%	0,48%	0,49%	0,50%	0,50%	0,50%	0,51%
TOTAL ASSETS	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Share capital	26,33%	25,84%	26,66%	26,41%	26,27%	26,43%	26,06%	26,00%	25,96%
Legal Reserves	20,15%	19,45%	20,06%	19,87%	19,77%	19,89%	19,61%	19,57%	19,54%
Other equity instruments	1,02%	1,00%	1,04%	1,03%	1,02%	1,03%	1,01%	1,01%	1,01%
Currency translation difference	-3,86%	-4,81%	-5,09%	-5,04%	-5,02%	-5,05%	-4,98%	-4,97%	-4,96%
Treasury shares and shareholding	-1,46%	-1,39%	-1,52%	-1,51%	-1,50%	-1,51%	-1,49%	-1,48%	-1,48%
Consolidated profit for the period	-0,38%	0,03%	1,17%	1,36%	1,78%	2,20%	2,54%	2,81%	3,06%
Equity attributable to the shareholders of the Parent Company	41,81%	40,14%	42,32%	42,11%	42,33%	42,99%	42,75%	42,95%	43,13%
Non-controlling interests	0,91%	1,40%	1,67%	1,66%	1,65%	1,66%	1,64%	1,63%	1,63%
TOTAL EQUITY	42,72%	41,54%	44,00%	43,77%	43,98%	44,65%	44,39%	44,58%	44,76%
NON-CURRENT LIABILITIES	39,87%	42,61%	41,86%	37,96%	36,20%	33,97%	33,46%	30,71%	29,60%
Total debt	27,65%	29,89%	31,89%	28,09%	26,38%	24,08%	23,72%	20,99%	19,89%
Other non-current liabilities	3,33%	3,66%	1,30%	1,28%	1,28%	1,28%	1,27%	1,26%	1,26%
Provisions for contingencies and charges	2,14%	1,80%	2,01%	1,99%	1,98%	2,00%	1,97%	1,96%	1,96%
Deferred tax liabilities	6,75%	7,26%	6,66%	6,60%	6,56%	6,60%	6,51%	6,50%	6,49%
CURRENT LIABILITIES	17,42%	15,85%	14,15%	18,28%	19,82%	21,39%	22,15%	24,71%	25,64%
Liabilities associated with non-current assets held for sale	2,11%	0,00%	0,10%	0,10%	0,10%	0,10%	0,10%	0,10%	0,10%
Total debt	2,84%	2,96%	1,01%	1,97%	2,48%	2,36%	1,47%	2,26%	1,22%
Payables	10,20%	11,14%	10,46%	13,13%	13,47%	13,91%	14,44%	14,69%	14,96%
Provisions for contingencies and charges	0,56%	0,20%	0,44%	0,43%	0,43%	0,43%	0,43%	0,43%	0,42%
Other current liabilities	1,71%	1,57%	2,14%	2,65%	3,34%	4,59%	5,72%	7,24%	8,93%
TOTAL LIABILITIES	57,28%	58,46%	56,00%	56,23%	56,02%	55,35%	55,61%	55,42%	55,24%
TOTAL EQUITY AND LIABIL.	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

Appendix 6: Forecasting Assumptions

Income Statement	2017F	2018F	2019F	2020F	2021F	2022F	Assumption
Revenues							See projections Annex
Other operating income	1.40%	1.50%	1.40%	1.40%	1.40%	1.40%	Stable over time. Adjusted to the expected Inflation rate
Net gains on disposal of non-current assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	We assumed the non-current assets remain stable.
Procurements	0	0	0	0	0	0	Stable over time. Adjusted to the expected Inflation rate
Staff costs	-29.2%	-29.0%	-29.0%	-29.0%	-29.0%	-29.0%	Attributable to higher levels of Occupancy. As a % of Revenues.
Depreciation and amortization charges	-5.95%	-5.85%	-5.74%	-5.44%	-5.28%	-5.11%	Based on the 3 years historical average of D&A over total tangible and intangible assets
Net impairment losses % changes in provisions	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Unpredictable. Equal to 2016 nominal value
Other operating expenses	-54.9%	-54.9%	-54.9%	-54.9%	-54.9%	-54.9%	As a percentage of Revenues. We will assume the smallest percentage (2016) as the group has a cost savings initiative implemented.
Financial Result	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	It depends on the Total debt and we have assumed that the Debt is relatively stable over time. Equal to 2016 nominal value.
Others	11 945 000	9 929 667	9 574 556	10 483 074	9 995 765	10 017 798	As an MA of the past 3 years. See projections.
Income Tax	0.25	0.25	0.25	0.25	0.25	0.25	25% of EBT

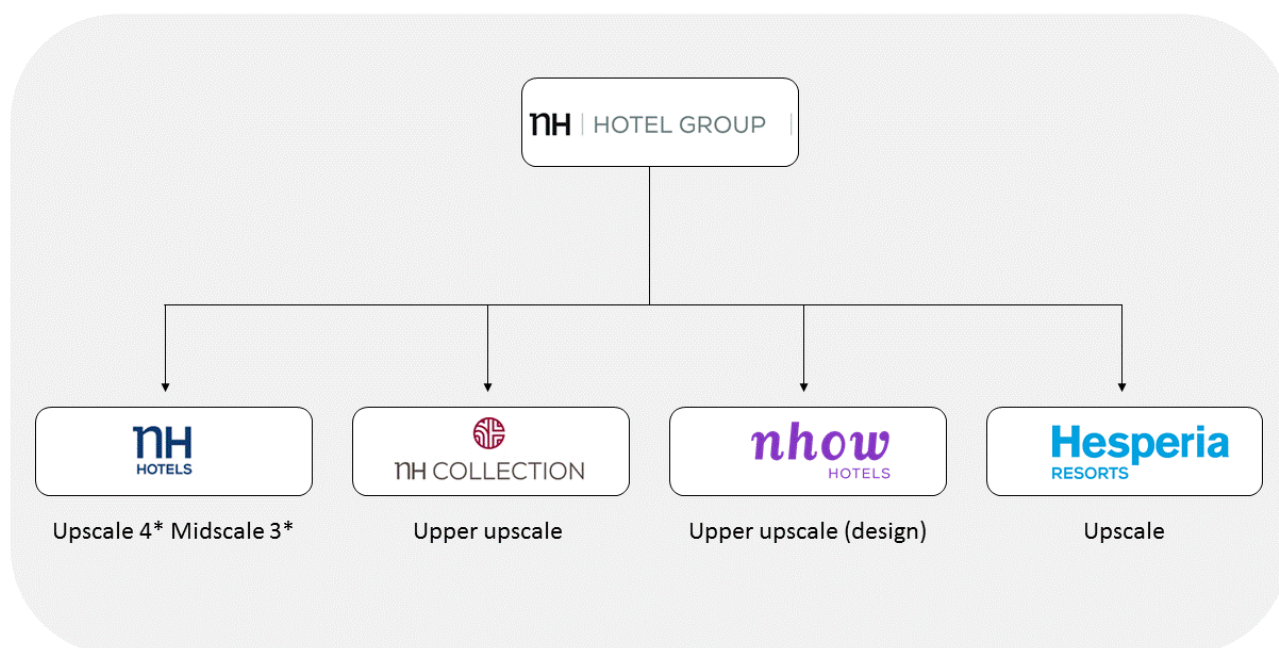
Balance Sheet	2017F	2018F	2019F	2020F	2021F	2022F	Assumption
Goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value. No impairments for the period foreseen
Intangible assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Tangible fixed assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	We assume that the tangible assets will be stable over time as the Hotel is currently not expanding
Investments accounted for using the equity method	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Deferred tax assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Other non-current assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Non-current assets classified as held for sale	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Unpredictable. Equal to 2016 nominal value.
Inventories	0.68%	0.68%	0.68%	0.68%	0.68%	0.68%	% of revenues. MA3
Trade receivables	11.10%	11.16%	10.79%	11.02%	10.99%	10.93%	% of revenues. MA 3
Non-trade receivables	5.60%	5.31%	3.76%	4.89%	4.66%	4.44%	% of revenues. MA 3
Short term financial investments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Stable over time.
Cash and cash equivalents	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	% of revenues.
Other current assets	1.4%	1.5%	1.4%	1.4%	1.4%	1.4%	Equal to 2016 nominal value. Adjusted to the expected Inflation rate
Share capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Legal Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2017F nominal value
Other equity instruments	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Currency translation difference	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Treasury shares and shareholding	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Consolidated profit for the period	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Non-controlling interests	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	Equal to 2016 nominal value
Total debt (Non-current)							See Annex Debt
Other non-current liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Provisions for contingencies and charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Deferred tax liabilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Liabilities associated with non-current assets held for sale	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Total debt (Current)							See Annex Debt
Payables	20.89%	20.60%	20.15%	20.55%	20.43%	20.38%	% of Revenues. MA 3
Provisions for contingencies and charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Equal to 2016 nominal value
Other current liabilities	3.54%	3.50%	3.64%	3.56%	3.57%	3.59%	% of Revenues. MA 3

Projections for Assumptions	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
Inventories	0.66%	0.69%	0.68%	0.68%	0.68%	0.68%	0.68%	0.68%	0.68%
Trade receivables	10.91%	12.30%	10.10%	11.10%	11.16%	10.79%	11.02%	10.99%	10.93%
Non-trade receivables	5.60%	5.31%	3.76%	4.89%	4.66%	4.44%	4.66%	4.58%	4.56%
Cash and cash equivalents	16.05%	5.64%	9.44%	10.38%	8.49%	9.44%	9.43%	9.12%	9.33%
Payables	21.77%	21.93%	18.97%	20.89%	20.60%	20.15%	20.55%	20.43%	20.38%
Other current liabilities	3.65%	3.08%	3.89%	3.54%	3.50%	3.64%	3.56%	3.57%	3.59%
Depreciation and amortization charges	-5.85%	-5.76%	-6.25%	-5.54%	-5.44%	-5.35%	-5.07%	-4.92%	-4.76%
Net gains on disposal of non-current assets	-1.06%	-1.87%	88.95%	-1.46%	-1.46%	-1.46%	-1.46%	-1.46%	-1.46%
Staff Cost	-29.98%	-28.92%	-28.72%	-29.21%	-28.95%	-28.96%	-29.04%	-28.98%	-28.99%
Other operating expenses	-57.74%	-57.17%	-54.91%	-54.91%	-54.91%	-54.91%	-54.91%	-54.91%	-54.91%
Others	17 991 000	10 995 000	6 849 000	11 945 000	9 929 667	9 574 556	10 483 074	9 995 765	10 017 798

Revenues	2014	2015	2016	2017F	2018F	2019F	2020F	2021F	2022F
Total rooms	57 127	58 655	58 058	58 058	58 058	58 058	58 058	58 058	58 058
Assumption	The room number is assumed to remain stable								
Occupancy	67.70%	67.60%	68.40%	69.43%	70.47%	71.52%	72.60%	73.69%	74.79%
Assumption	1% per year based on increased GDP prediction and increased tourism arrivals to Europe. The supply is supposed to grow very slow. (PWC)								
ADR	78.9	86.6	90.6	92.4	95.2	98.4	100.1	101.1	101.9
Assumption	As an average of the growth in the last 3 years.								
Room Revenues	1 113 781 383	1 253 321 505	1 313 225 281	1 359 297 944	1 421 641 146	1 491 296 530	1 540 109 103	1 579 295 621	1 615 673 255
Assumption	The multiplication of Occupancy, ADR, and number of rooms.								
Food and Beverage	23.80%	22.50%	21.60%	22.63%	22.63%	22.63%	22.63%	22.63%	22.63%
Assumption	Average of 22.63% of Total revenues								
Total Revenues			1 666 952 379	1 743 405 925	1 828 826 645	1 888 687 130	1 936 742 864	1 981 353 968	

Debt (EUR '000)	2014		2015		2016	
	Long	Short	Long	Short	Long	Short
Convertible bonds	228 156	0	233 251	0	238 274	0
Guaranteed senior notes maturing in 2019	250 000	0	250 000	0	250 000	0
Guaranteed senior notes maturing in 2023	0	0	0	0	285 000	0
Debt instruments and other marketable securities	478 156	0	483 251	0	773 274	0
Syndicated loans	111 633	19 700	221 600	21 200	0	0
Mortgages	86 415	18 807	32 262	13 183	33 078	4 325
Unsecured loans	0	0	11 736	3 596	2 158	9 072
Subordinated loans	75 000	0	75 000	0	40 000	0
Credit lines	0	32 617	0	36 861	0	9 944
Total arrangement expenses	-18 279	-1 365	-15 813	-1 060	-12 603	-5 030
Total borrowing costs	0	1 152	0	1 492	0	7 148
Bank borrowings	254 769	70 911	324 785	75 272	62 633	25 459
Total	732 925	70 911	808 036	75 272	835 907	25 459
SUM TOTAL	803 836		883 308		861 366	
TOTAL	803 836		883 308		861 366	

Debt (EUR '000)	2017F		2018F		2019F		2020F		2021F		2022F	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
Convertible bonds	238 274	0	238 274	0	0	0	0	0	0	0	0	0
Guaranteed senior notes maturing in 2019	250 000	0	250 000	0	250 000	0	0	0	0	0	0	0
Guaranteed senior notes maturing in 2023	285 000	0	285 000	0	285 000	0	285 000	0	285 000	0	285 000	0
Debt instruments and other marketable securities	773 274	0	773 274	0	535 000	0	285 000	0	285 000	0	285 000	0
Syndicated loans	0	0	0	0	0	0	0	0	0	0	0	0
Mortgages	0	4 325	26 491	0	24 042	0	22 141	0	20 357	0	20 357	0
Unsecured loans	0	9 072	1 009	0	303	0	303	0	0	0	0	0
Subordinated loans	40 000	0	40 000	0	40 000	0	40 000	0	40 000	0	40 000	0
Credit lines	0	9 944	0		0		0	0	0		0	0
Total arrangement expenses	0	-5 030	0	-5 082	0	-3 510	0	-883	0	-926	0	-2202
Total borrowing costs	0	7 419	0	0	0	0	0	0	0	0	0	0
Bank borrowings	40 000	25 730	67 500	-5 082	64 345	-3 510	62 444	-883	60 357	-926	60 357	-2 202
Total	813 274	25 730	840 774	-5 082	599 345	-3 510	347 444	-883	345 357	-926	345 357	-2 202
SUM TOTAL	839 004		835 692		595 835		346 561		344 431		343 155	
PROJECTIONS OF NEW DEBT												
Convertible bonds					200 000		200 000		200 000		200 000	
Guaranteed senior notes	115 000		80 000		185 000		385 000		365 000		365 000	
Debt instruments and other marketable securities	115 000		80 000		385 000		585 000		565 000		565 000	
Syndicated loans												
Mortgages												
Unsecured loans												
Subordinated loans			30 000		30 000		30 000		30 000		30 000	
Credit lines			50 000		50 000		100 000		50 000		80 000	
Bank borrowings			30 000	50 000	30 000	50 000	30 000	100 000	30 000	50 000	30 000	80 000
Total Long and Short term	115 000		110 000	50 000	415 000	50 000	615 000	100 000	595 000	50 000	595 000	80 000
TOTAL PROJECTIONS	115 000		160 000		465 000		715 000		645 000		675 000	
TOTAL	954 004		995 692		1 060 835		1 061 561		989 431		1 018 155	



Appendix 8: Discounted Cash Flow Assumptions

DCF		Assumption
RFR (risk free rate)	0.60%	10-year German Government Bund
CRP (country risk premium)	1.12%	Average of Country Risk Premium Western Europe. Damodaran 2017
MRP (market risk premium)	6.00%	Based on market reports. (Company Data)
Beta unlevered	0.64	Damodaran's beta per Industry 01.01.2017
Beta levered		$\beta_l = \text{Unlevered Beta} (1 + (1 - \text{tax rate}) (D/E \text{ Ratio}))$
Cost of Equity		$[R_f + \beta(R_m - R_f) + \text{CRP}]$
Cost of debt	6.54%	3 years average of interest expense over total debt
Marginal tax rate	25.00%	General Tax rate of Spanish companies 2016
Terminal growth rate	2.90%	It is estimated that the growth will grow with inflation and GDP. Representing the sum of the expected Inflation rate in 2017 (1.40%) plus the expected GDP growth in Europe in 2017 (1.50%).
Perpetuity WACC	6.78%	Equal to the WACC in 2022F

Appendix 9: Discounted Cash Flow Analysis

DCF analysis	2017F	2018F	2019F	2020F	2021F	2022F	Residual
Cost of Equity							
RFR (risk free rate)	0,60%	0,60%	0,60%	0,60%	0,60%	0,60%	0,60%
CRP (country risk premium)	1,12%	1,12%	1,12%	1,12%	1,12%	1,12%	1,12%
MRP (market risk premium)	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%	6,00%
Beta unlevered	0,64	0,64	0,64	0,64	0,64	0,64	0,64
Beta levered	1,26	1,25	1,24	1,24	1,24	1,23	1,23
Cost of Equity [$R_f + \beta(R_m - R_f) + CRP$]	9,26%	9,23%	9,13%	9,17%	9,14%	9,11%	9,11%
Cost of Debt							
Cost of debt	6,54%	6,54%	6,54%	6,54%	6,54%	6,54%	6,54%
Marginal tax rate	25,00%	25,00%	25,00%	25,00%	25,00%	25,00%	25,00%
After-tax cost debt	4,91%	4,91%	4,91%	4,91%	4,91%	4,91%	3,08%
WACC							
Weight of equity	42,72%	41,54%	44,00%	43,77%	43,98%	44,65%	44,65%
Weight of debt	57,28%	58,46%	56,00%	56,23%	56,02%	55,35%	55,35%
WACC	6,77%	6,70%	6,76%	6,77%	6,77%	6,78%	6,78%

FCFF (EUR '000)	2017F	2018F	2019F	2020F	2021F	2022F	Residual
EBIT (1-marginal tax rate)	78 804	91 897	102 808	112 114	120 064	126 854	126 854
D&A	101 239	99 496	97 707	92 598	89 917	86 945	86 945
Net change in NWC	-2 916	3 177	35 424	-14 758	6 419	8 083	8 083
CAPEX	91 300	91 300	91 300	91 300	91 300	91 300	91 300
FCFF	91 659	96 916	73 790	128 169	112 263	114 417	114 417

	0	1	2	3	4	5
Discounted FCFF	91 659	90 830	64 736	105 300	86 393	82 405
Cumulative Disc. FCFF	91 659	182 488	247 225	352 524	438 917	521 323
Terminal value	2 186 210	2 334 117	2 490 527	2 658 989	2 839 023	3 031 157

Enterprise value (in million Euros)	
Terminal growth rate	2,90%
Perpetuity WACC	6,78%
Terminal value	3 031 157
PV of terminal value	2 186 210
PV of FCFF	521 323
Enterprise value	2 707 533

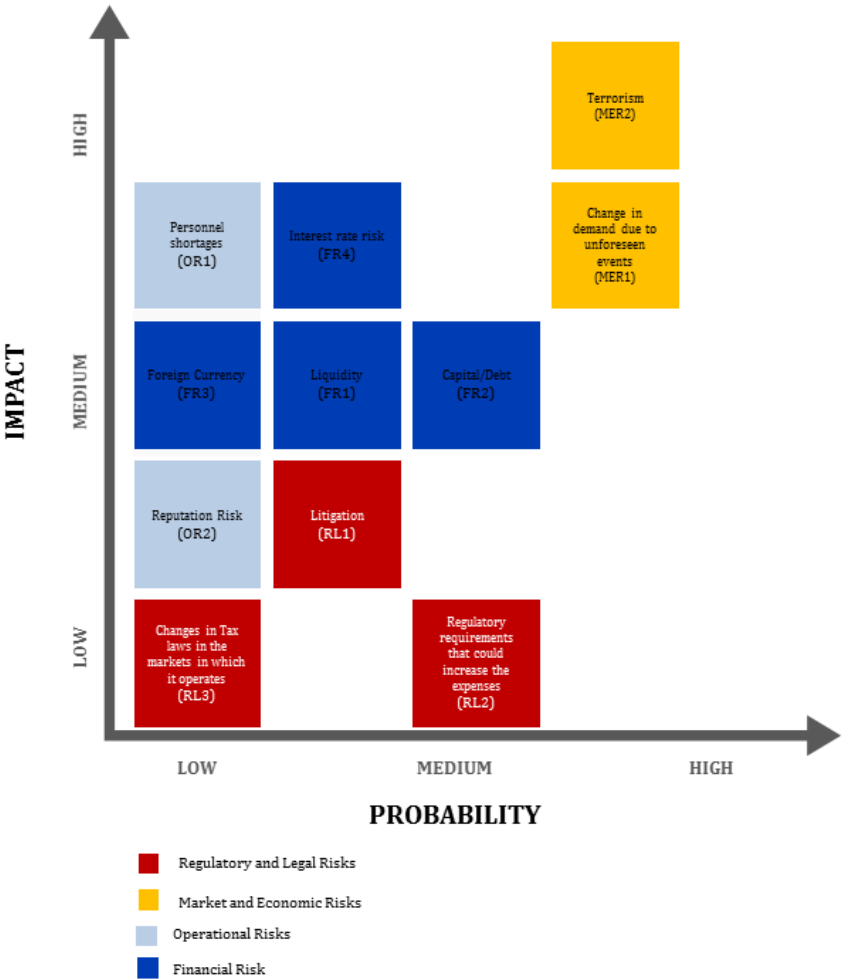
Target Price	
Enterprise value	2 707 533
Net debt	714 013
Value of equity	1 993 520
Number of shares outstanding	350 270
Equity value per share	5,69 €

Valuation	2017F Target Price
DCF	5,69 €
Multiples (average)	6,63 €
EV/EBITDA	7,75 €
P/E	5,51 €

DCF Valuation	
Enterprise Value	2 707 533
Target Price	5,69 €

Multiples Valuation	
EV/EBITDA Target Price	7,75 €
P/E Target Price	5,51 €
Multiples Average	6,63 €
Difference	0,94 €

Appendix 10: Risk Matrix



Appendix 11: Peer Selection

The first step for finding our Peers was to make a list of big international hotel chains around the world, resulting in the below 29 chains where we started to apply some filters. Our target Peers were international hotel chains, listed in a Stock Exchange and that are exclusively in the hotel business.

	First Filter	Country	International	Listed in a Stock Exchange	Exclusively Same Segment	
1	Melia Hotels International	ES	Yes	Yes	Yes	✓
2	Intercontinental Hotels Group	UK	Yes	Yes	Yes	✓
3	Hilton Hotels	US	Yes	Yes	Yes	✓
4	Marriot International	US	Yes	Yes	Yes	✓
5	Resorttrust Inc.	JP	Yes	Yes	No	✗
6	Imperial Hotel Ltd	JP	No	Yes	Yes	✗
7	Wyndham Worldwide Corp.	US	Yes	Yes	Yes	✓
8	Hyatt Hotels Corp	US	Yes	Yes	Yes	✓
9	Shangri-La Asia Limited	BMU	Yes	Yes	Yes	✓
10	Belmont Ltd.	BMU	Yes	Yes	No	✗
11	Choice Hotels International	USA	Yes	Yes	Yes	✓
12	CitizenM	NL	Yes	No	Yes	✗
13	Motel one	DE	Yes	No	Yes	✗
14	Best Western	US	Yes	No	Yes	✗
15	Deutsche Hospitality	DE	Yes	No	Yes	✗
16	Fattals Hotel Management	IS	Yes	No	No	✗
17	ITI Hotels	IT	No	No	Yes	✗
18	Starhotels	IT	Yes	No	Yes	✗
19	Una- Ata	IT	No	No	Yes	✗
20	Valtur	IT	No	No	Yes	✗
21	B&B Hotels	FR	Yes	No	Yes	✗
22	Club Med	FR	Yes	Yes	No	✗
23	Van der Valk	NL	Yes	No	Yes	✗
24	Eurostars Hotel Company	ES	Yes	No	Yes	✗
25	Iberostars Hotel & Resorts	ES	Yes	No	Yes	✗
26	RIU Hotels & Resorts	ES	Yes	No	Yes	✗
27	Allsun Hotels	DE	No	No	Yes	✗
28	Princess Hotels & Resorts	ES	Yes	No	Yes	✗
29	Whitbread	UK	Yes	Yes	No	✗

After applying the mentioned filter, our list was reduced to the below 8 options. However, to selecting our Peers we needed an additional filter. Because NH Hotels is based and has the majority of its hotels in Europe, we filtered our 8 options to hotel chains that have at least 50 000 rooms in Europe. This filter leads us to our Peers which are: Melia Hotels International, Intercontinental Hotels Group, Hilton hotels and Marriot International.

Second Filter		Country	At least 50 000 rooms in Europe	
1	Melia Hotels International	ES	Yes	✓
2	Intercontinental Hotels Group	UK	Yes	✓
3	Hilton Hotels	US	Yes	✓
4	Marriot International	US	Yes	✓
5	Wyndham Worldwide Corp.	US	No	✗
6	Hyatt Hotels Corp	US	No	✗
7	Shangri-La Asia Limited	BMU	No	✗
8	Choice Hotels International	USA	No	✗

Below table shows some information and ratios about our Peers.

	Country	Total Revenues	Total Rooms	Beta	ROE	ROA	Total Assets
NH Hotels S.A.	ES	1 447 903 000	58 058	0.77	3.17%	1.39%	2 627 237 000
Peers							
Melia Hotels International	ES	1 801 962 000	79 764	0.86	7.13%	3.06%	3 506 000 000
Hilton Hotels	US	11 663 000 000	804 097	1.19	5.61%	1.35%	26 210 000 000
Marriot International	US	17 072 000 000	542 391	1.35	88.29%	5.16%	24 140 000 000
Intercontinental Hotels Group	UK	1 715 000 000	63 650	1.23	0.00%	12.37%	2 927 000 000

Appendix 12: Risks to Price Target

For the Sensitivity analysis we applied the grading system from the course unit of equity research in our recommendation. In our risk analysis we identified NH as medium risk.

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%

Change in Terminal Growth					
	2,35%	2,61%	2,90%	3,19%	3,51%
5,69	4,89	5,24	5,69	6,21	6,90

Change in Terminal Growth						
Change in WACC	5,69	2,35%	2,61%	2,90%	3,19%	3,51%
	5,47%	4,95	5,31	5,77	6,30	6,99
	6,08%	4,92	5,28	5,73	6,26	6,94
	6,75%	4,89	5,24	5,69	6,21	6,90
	7,43%	4,85	5,21	5,65	6,17	6,85
	8,17%	4,82	5,17	5,61	6,13	6,80

Change in Occupancy					
	56,24%	62,48%	69,43%	76,37%	84,01%
5,69	2,56	4,13	5,69	7,86	10,05

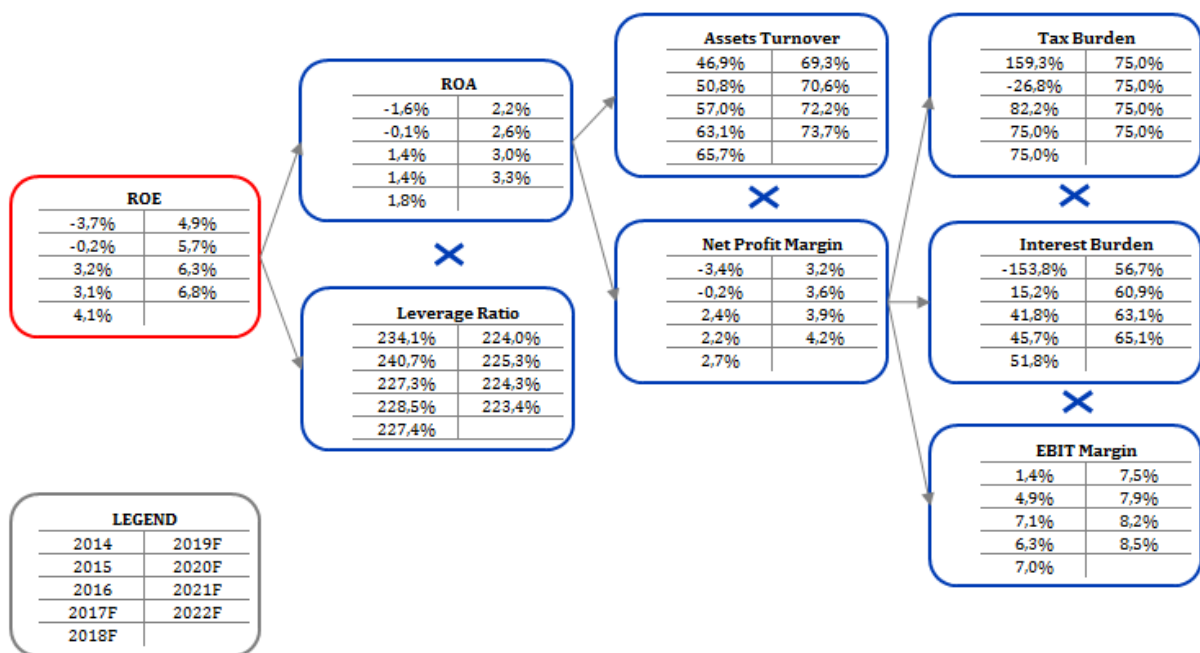
Change in ADR					
	75,0	83,3	92,6	101,9	112,0
5,69	4,77	5,79	5,69	7,91	10,10

Change in Staff Cost (Percentage of Revenues)					
	-23,66%	-26,29%	-29,21%	-32,13%	-35,34%
5,69	6,42	6,20	5,69	5,71	5,44

Change in ADR	Change in Occupancy					
	5,69	56,24%	62,48%	69,43%	76,37%	84,01%
	75,00	0,02	1,21	2,59	4,01	5,63
	83,30	1,21	2,58	4,16	5,80	7,68
	92,60	2,59	4,17	5,69	7,91	10,11
	101,90	4,02	5,82	7,91	10,12	12,67
	112,00	5,62	7,68	10,10	12,65	15,63

Change in Total Room Number					
	34835	46446	58058	69670	83604
5,69	5,30	5,63	5,69	6,28	6,66

Appendix 13: Return on Equity



Formulas	
ROA	Net Income / Total Assets
Leverage Ratio	Assets / Equity
Assets Turnover	Sales / Assets
Net Profit Margin	Net Income / Sales
Tax Burden	Net Income / EBT
Interest Burden	EBT / EBIT
EBIT Margin	EBIT / Sales

Appendix 14: Abbreviations

Average Daily Rate (ADR)

Business Unit (B.U.)

Capital Expenditures (CAPEX)

Chartered Financial Analyst (CFA)

Chief Executive Officer (CEO)

Country Risk Premium (CRP)

Discounted Cash Flow (DCF)

Earnings Before Interest and Taxes (EBIT)

Earnings Before Interest and Taxes Depreciation and Amortization (EBITDA)

Free Cash Flow to the Firm (FCFF)

Gross Domestic Product (GDP)

Market Risk Premium (MRP)

Price Waterhouse Cooper (PWC)

Return On Assets (ROA)

Return On Equity (ROE)

Revenue Per Available Room (RevPar)

United Nations World Tourism Organization (UNWTO)

Weighted Average Cost of Capital (WACC)

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